

San Francisco State University Final Report to The Employment Training Panel: Evaluation of the Small Business Pilot Program

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I. ACKNOWLEDGEMENTS

The SFSU team would like to thank the staff of ETP for their invaluable assistance in providing contact information for participating SBPP contractors and for their time, effort, and suggestions for following up on pending data from trainees and employers. The team would also like to thank Panel members, staff, employers, and trainees for their time and energy given to the evaluation.

II. EXECUTIVE SUMMARY

Background and Design

The California Employment Training Panel (ETP) instituted the Small Business Pilot Project (SBPP) in August of 2002 in order to address the particular needs of small businesses applying directly for ETP training funds. Under this program, application processes and eligibility criteria were streamlined to target businesses with fewer than 100 employees.

A research team from San Francisco State University was selected to evaluate key components of the Program, including:

- Overall success / failure of the SBPP
- SBPP eligibility criteria
- Outreach to and potential barriers for small businesses to participate
- Orientation
- Application and approval processes
- Economic benefits / outcomes

The team interviewed ETP Panel members, administrators and staff, surveyed participating business owners, and trainees, and compared historical records and literature with available SBPP data.

Results

This report provides a baseline reading of the SBPP's results that can be used for later comparisons. Because the first year of the Pilot had not yet been completed during the evaluation period, some of the findings may only be presented as projections on expected gains in the coming year. Nonetheless, the surveys of employers and trainees found that the program worked well for them and support its continuance.

Through its research, the SFSU team arrived at the following findings about the SBPP's performance:

1. The SBPP met or exceeded the following key goals that it set for this year:

- a) **Increase the total number of new small business contracts by a least fifty percent (50%).** The total number of direct contracts was 54, up 59% from last year and 38% from the historical 4-year average of 39.
- b) **Improve the number of target and eligible firms who successfully complete the application process and receive funding approval by ETP.** Fifty-four contracts were approved for the SBPP from 66 site visits, or 1 of 1.2 applicants, and from 84 RED received, or 1 of 1.6 applicants. Historically, ETP approved 1 of 2 eligible contracts for applicants with 100 or more employees; 1 of 3 contracts for applicants with fewer than 100 employees, and 1 of 4 contracts for eligible applicants with under 50 employees.

- c) **Measure the overall effectiveness of the Small Business Pilot Project.** 92% of responding employers rated the program as “Good” to “Excellent” in terms of benefit to the company. Twenty-seven of twenty-eight (96%) employers responding stated they will apply for training funds again. An overwhelming 90% of trainees surveyed are willing to participate in SBPP again.
- d) **Determine if SBPP is consistent with the funding priorities of ETP.** As mandated, 100% of the 54 contracts in the SBPP were with employers with fewer than 100 employees: 31.5% had under 20 employees, 38.9% had 21-50 employees, and 29.6% had 51-99 employees. The relatively equal distribution among these three categories shows that SBPP has the capacity to effectively reach out to even the smallest of businesses, with contracts as small as \$2,000.

2. The SBPP resulted in the following impacts on ETP policies and economic outcomes:

- a) **Successful SBPP streamlined policies.** The fixed fee reimbursement rate, \$25,000 contract limit, minimum wage requirement, and approval timelines appear to be set at appropriate levels to allow a number of small businesses to participate who might otherwise not be able to participate in the standard contract process.
- b) **Unexpected high positive impact of streamlining curriculum for SBPP.** Elimination of the curriculum requirement had a higher impact than anticipated on some participating employers. Had employers been required to write a full curriculum for their training, 3 employers stated they would have definitely dropped out, and others would have struggled to participate without an analyst’s or consultant’s time.
- c) **Potential area for policy change.** While most employers found the 40-hour limit sufficient to train workers, some employers would like to be able to offer more in-depth training with a smaller number of employees, which would necessitate raising the upper limit of the hourly range.
- d) **Positive projected economic outcomes.** Economic benefits projected for the next 6-12 months by employers are positive in the areas of sales growth, salary increases, productivity, and prevention of unemployment.

Detailed discussion of these findings and the nuances of the data can be found in the Results section.

Recommendations

Recommendation Set #1: Program Continuation

Based upon the multiple indicators of success as reported in the Results section and highlighted above, it is our recommendation that ***ETP continue the SBPP for another 24 months***; it should drop its “Pilot” designation and evaluate the program again after the second year for final designation as a staple of the ETP service system. It is also recommended that ETP maintain the “Small Business” designation to provide visible and clear attention to the issue of equity which requires ETP to continue to find ways to serve smaller businesses within the State, especially those with fewer than 100 employees.

We also suggest that small businesses be exposed to relevant data on multiple employer contracts (MECs) as part of the online (and in person) orientation to SBPP. During the orientation process small businesses that wish to participate in SBPP can ***be required to certify that their needs are not being met*** by existing ETP programs. The outcome of this revised orientation process would include:

- Development of a cost effective strategy that directs some small businesses to the more efficient training processes of MECs; once developed, the information database of MEC can be appropriately integrated into the online orientation process of the SBPP;

- Assisting ETP staff in addressing the more difficult questions of the cost/benefit equation as it relates to the SBPP; we note with little controversy that SBPP is more costly to administer than traditional ETP processes; however, if the training needs of SBPP applicants are supported by the collected data to be truly unique and not served by existing ETP tools, then the question of equity gains greater validity in arguing for institutionalizing the SBPP streamlined approach and directing it toward those who otherwise fall outside of the traditional and MEC processes.
- Positioning the SBPP as a service tool that significantly enlarges the ETP service system; the SBPP may then specifically budget for particular targeted markets (i.e., self-identified and certified small businesses that fall outside the existing ETP network in terms of specific reasons that are systematically captured at time of orientation to the SBPP).

Additionally, the SFSU team recommends:

- ***Make the program an initiator program*** whereby small businesses that complete their first contract have access to additional small business resources, i.e. where they can learn how to join MECs or apply to the mainstream program for subsequent funding. The program thus becomes the “Small Business Launch Program.” This reflects the sentiments from staff and focus groups that the SBPP actually does “*launch*” small businesses into a direct relationship with ETP, and ETP can serve as a gateway to other government services that help small businesses.
- ***Expand this current evaluation effort to develop a strategy that provides a path for follow-up training and assistance*** after the companies’ successful completion of the “launch” program. This is responsive to a strong theme expressed in the focus groups that asked what programs were in place to assist companies *after* the SBPP experience to help them as they grow.

While staff may have a more descriptive term than “launch,” our intention is to convey a sense of motion into the relationship that is being initiated between ETP and the small businesses. We note that SBPP focus group participants suggested in concert (and without complaint) that the reimbursement covered only about 25% of the cost of training, indicating that the push may have been as important as the financial reimbursement from ETP. The terms and labels used for the continuation of SBPP are of minimal importance, but the positioning of the SBPP as a stepping-stone to traditional ETP processes is the overall desired outcome of this recommendation.

Recommendation Set 2: Current SBPP Policies

Continue to ***set the maximum dollar limit for year 2 of the SBPP at \$25,000***. Based upon the data collected, the existing procedures and policies of the SBPP appeared to be appropriate. The maximum dollar limit did not appear to deter the SBPP participants; according to the information collected, 89% of the respondents noted that they did not reduce the training goals because of the limit; when asked to elaborate, some 86% commented that the dollar limit was not a factor in their participation in the SBPP. There is a strong consensus among staff and Panel that the \$25,000 limit provides a reasonable level of risk protection.

- Consider expanding the funding limit to a higher limit (we suggest \$50,000 as it was the number most frequently mentioned in our evaluation effort and is responsive to the relatively small but consistent feedback from staff and focus group participants) in year 3; after the second year of the program, staff will have more experience with risk assessment. This strategy acknowledges that approximately 20% of the current group of firms in the Pilot did request funding near the maximum, suggesting the target market could welcome an expanded program that addresses an (apparent) unmet need for higher levels of training. The dollar limit controls a large part of the risk with public

funds, but the higher limit recognizes the input from field staff that the risk can be mitigated with site visits and careful questioning at orientation. The basic concern is to balance risk and outreach priorities. Key to this recommendation is the second year SBPP data and the experience to be gained by staff after one more year of administering the SBPP

- Continue to ***limit participation to businesses with fewer than 100 employees***; this allows the program to continue to champion the cause of small businesses and is a concrete illustration of the Panel's recognition that it has an obligation to serve the smaller businesses in California.
- ***Eliminate the hour limit on training*** or increase the maximum to 60 hours. This offsets some concerns among staff that the program is too modest to allow serious and meaningful training. This recommended change is low risk for ETP.
- Align the SBPP with the traditional process and ***allow contracted training to be modified up to the full two-year cycle*** without requiring administrative amendments, as long as the dollar limit is not being exceeded. This would continue the theme of streamlining the contracting process without increasing the risk or adding procedural delays.

Recommendation Set 3: Orientation, Application and Approval Processes for Traditional ETP

In the evaluation by SFSU, the issue of risk management came across as a very strong factor arguing ***against the wholesale migration of the streamlined procedures*** to the traditional ETP process. This concern seemed to be evident at all levels of ETP staffing. ETP currently requires the traditional applicant to justify the training needs and specify the relationship between training and the expected improvement in the overall competitiveness of the company. There appear to be almost no constituency advocating that these requirements be waived, in spite of the labor-intensive nature of the SEC document. Similarly, no significant sentiment was found to support the changing of the curriculum requirement that exists in the traditional ETP processes.

MECs are similarly required to provide significant amounts of information regarding recruitments, demand, labor market info, assessments, participating employer contributions, and supplemental information. No significant support emerged from the evaluation that suggested the MEC process should be streamlined to the extent of the SBPP.

With these comments in mind, the evaluation team did find logic to recommend consideration of the following revisions in the traditional ETP process:

- ***Move all companies to online orientation and online tracking of trainees*** (a change that already seems to be in motion). There is almost full consensus from the field staff for this change in procedures.

Currently, perhaps the most labor-intensive component for both the ETP field staff and the applying companies is the SEC. The following considerations are recommended:

- Field staff could experiment with ***capturing the key components of the SEC in a checklist format*** (i.e., to concisely address Legislative priorities); the companies could certify their market conditions and provide justification with staff checking off key monitoring points that ensure completeness but eliminate redundancy; this recommendation may take careful review by legal counsel to make sure that an abbreviated, checklist SEC cover page properly protects the agency.

- Consider ***developing a universally used shorter, clearer version of the Terms and Conditions*** that would make it easier for the employer to understand what was required of them during and after the delivery of the training.

Recommendation Set #4: Outreach and Inclusion Strategies

As indicated in the results section, the SBPP has met its numerical objective for outreach. However, rural businesses, women owned and minority owned businesses, which account for over 40% of the California landscape, are not specially identified. Thus the ETP cannot speak authoritatively about equity and breadth in its contacting efforts, in spite of the successes of the SBPP. The SBPP has met its small businesses goals, but not because of a systematic outreach to the full diversity of California small business. The evaluation effort uncovered no roadblocks per se to including minority or women owners. However, the emerging consensus was that these market segments were not being specially addressed. Similar concerns were noted with regard to rural and seasonal small businesses in the state.

To reach difficult targets, ETP should consider:

- ***Developing a profile of*** size, number, location and other key parameters of apparently ***underserved constituencies***, e.g., small women- and minority-owned, rural and seasonal businesses.
- ***Developing a database of organizations that might provide efficient outreach*** to these targeted groups, including a listing of:
 - MEC, highlighting details on coverage, client groups, industry served, etc.
 - Local community associations in specific industries such as software and scientific research that have ongoing contact with targeted small businesses
 - Campuses of the California State University system (e.g., the Offices of Service Learning which are active community links within the university), Community Colleges and Adult Education Programs, that have expertise in the adult education field and business training field, to help develop assessments and short, industry specific programs for small businesses
 - Chambers of commerce, especially those that include the underserved small businesses (e.g., women and minority chambers of commerce) to assist in identifying employers' needs; new and expanded focus programs modeled after the SBPP might be developed specifically for those employers who are interested in "trying out ETP."

California small businesses that are rural, seasonal, women- and /or minority-owned are part of that diversity and may require similarly creative approaches such as the SBPP to raise their participation level in ETP contracting opportunities.

Recommendation Set #5: Costs of the SBPP and Related Economic Benefits

Our evaluation results suggest that SBPP participants have positive expected outcomes along similar parameters as traditional ETP contractors:

- **Retention** - Increased number of employees (retained or new hires): 68% of employers said the training would help them retain their workers; 87% of the trainees said that the training was useful to the company (making it more competitive).
- **Wages** - Increased wages: 21% of employers said that the training program already resulted in wage increases to trainees and 24% of trainees said that they had already received a raise; 80% of employers said that they expected to give trainees a raise in the next 6-12 months and over 84% said the training was important or very important in their decision to give raises.

- Sales - Increase sales: expected by almost all the employers as a result of the training.
- Productivity - Increased productivity expected by participants: 60% of trainees said they could perform “their current job better”; 27% of trainees say they “understand the company better” after the training; 70% of the trainees said the training was “just right.”
- Morale - Improved morale was noted: 74% of trainees said training was “very useful” to them personally; over 90% of employers and trainees were willing to participate in future training programs.
- Owner Skills – This last category is unique to SBPP and needs to be examined in more detail as suggested below: 44% of owners also participated in the training, suggesting a gain in overall competitiveness in the management function for the respondents.

Comparative administrative cost to ETP for the SBPP versus the traditional ETP processes is a bit more difficult to document. It may be most useful to think of the “political cost” if the rather unique stakeholders attracted by the SBPP are not targeted. Thus, financial cost must necessarily be balanced against the risk that neglected stakeholders will become more aggressive and active. A better approach for ETP is to continue to manage the SBPP as a proactive approach to reaching a previously underserved group.

ETP has some 20 years of historical data by which it can measure economic impact of its contracting outcomes. The timeframe of this evaluation only allowed a capturing of expectations. The following recommendations are designed to help develop a set of data that might better quantify the economic benefits of the SBPP.

It is also recommended that ***ETP extend this evaluation to capture:***

- ***Economic data from SBPP participants after 90 days or 6 months*** and see how those metrics compare with ETP’s historical data. This strategy extends the baseline data of the current effort, which will then be more measurable against traditional ETP outcomes (e.g., data on sales, wages, productivity, and morale). The clients served under the SBPP could very easily be argued to be a previously underserved stakeholder group that needs its own specific metrics (initially) to see if they are consistent with ETP’s twenty year contracting history. Those metrics would mimic the current baseline data noted above which in turn mirror the historic metrics used to help assess economic benefit to the California economy.

Finally, it is recommended that an ***amended evaluation be designed to develop tools to attempt to assess the economic benefit of allowing owners to participate*** in the training process. The data indicated that some 44% of owners participated in the training under the SBPP. This statistic might suggest that the SBPP may be moving the economy in a unique way, as owners (in addition to the business itself) become more competitive as an outcome of the training. However, in order to better understand the impact of this special provision of the SBPP, new data needs to be developed. Key questions that should be addressed in a subsequent inquiry include:

- How does training of the owner make the business more competitive?

- Does the owner's participation suggest that new industries and/or new markets are being targeted? If so, what are they and how do they aid the overall competitiveness of the California small business community?
- Did the use of technology change for the business as a result of the training?
- Are there specific indicators of economic benefit that can be tracked to the owner's training?
- How was the owner involved in the training? As a participant? As a trainee? How does this work in the face of no formal curriculum and minimum monitoring?

Note on Study Limitations

Because of the concurrence of study activities with SBPP activities, it is too early to draw final conclusions from the data gathered in this study. The default small sample size and fluctuating population of SBPP did not always allow for statistically significant findings. However, the SFSU Evaluation Team relied upon multiple sources to conduct its assessment; thus, we are confident that this study can contribute to the evaluation of SBPP in two ways:

- It provides well thought-out and reasonable "indicators" as to the effectiveness of the SBPP in light of the goals and objectives of ETP; and,
- It establishes important baseline data (e.g., on employer and trainee impressions, satisfaction and expectations) that can be used as benchmarks for future measurements and comparisons.

III. BACKGROUND

Background on the Employment Training Panel

Since 1983, the State of California, through the Employment Training Panel (ETP), has administered an economic development program that supports the overall California economy. In particular, ETP has attempted to support California employers who must compete in the global economy by providing funds to train/retrain workers. This economic development effort is the results of collaborations between business, labor, state agencies and educational institutions and is funded by the Employment Training Tax, which is paid by California employers who participate in the Unemployment Insurance system. The charter of the Employment Training Panel is given in its Annual Report:

“ETP strives to target its resources to meet the needs of business and workers. In so doing, the Panel approves training projects that best meet the following goals of its enabling legislation:

- Training displaced workers or workers at risk of being displaced;
- Training employees of businesses locating into or expanding in the State;
- Promoting the State's manufacturing workforce;
- Projects jointly developed by management and workers;
- Developing career ladders for workers;
- Supporting businesses moving to a high-performance workplace; and,
- Stimulating exports”(R1)

The Small Business Pilot Project was advocated by ETP senior staff in conjunction with the findings of the Small Business Work Group (SBWG) in an attempt to meet legislative mandates to improve accessibility to State training funds by small businesses. The Small Business Work Group Findings and Recommendations of April 2002 give the rationale for creating a program specifically targeting businesses with fewer than 100 employees (*hereafter referred to as “small businesses”*). The SBWG's findings are given in detail in Appendix A.

IV. EVALUATION OF THE SMALL BUSINESS PILOT PROJECT

ETP indicated in a Call for Concept Papers a request to retain an entity to evaluate and assess the successes, problems and other issues related to the Small Business Pilot Project (SBPP). SBPP was designed to target small businesses. Historically, many of these businesses have not fully participated in ETP programs and are often discouraged by the protracted development process and extended training requirements of ETP. Goals of the SBPP, according to ETP information, include:

- Increasing the number of small businesses obtaining direct contract approvals with ETP;
- Increasing the number of small businesses retaining direct contracts with ETP;
- Ensuring shorter contract approval times for such contracts;
- Streamlining and shortening the application process; and ensuring more prompt payment of these contractors.

A multidisciplinary team from San Francisco State University was selected as the successful respondent to the ETP Call for Concept Papers.

Scope of Evaluation

The key components of the SBPP examined in this evaluation, in light of the goals of the SBPP stated above, are:

1. Overall success/failure of the SBPP
2. SBPP eligibility criteria
3. Outreach to and potential barriers for small businesses to participate
4. Orientation
5. Application and approval processes
6. Costs of the Program and economic benefits

The San Francisco State University Team

Professors Richard L. McCline and Gerald Eisman served as Co-Principal Investigators for this SBPP-ETP Evaluation Study. Professor Richard L. McCline, Ph.D., is the Co-Director for the Ohrenschall Center for Entrepreneurship in the College of Business at San Francisco State University (SFSU). Professor Gerald Eisman, Ph.D., is Professor of Computer Science and faculty liaison to the SFSU Office of Community Service Learning. The curriculum vitae of McCline and Eisman are attached to this report as part of Appendix B. The University, part of the California State University system, enrolls over 27,000 students each year, and has the 4th largest business school in the country.

The faculty investigators enlisted graduate students in several disciplines as part of the evaluation team. SFSU is committed to the concept of “community service learning” which gives academic credits and support to students who work on projects that serve the public interest. The improvement of contracting opportunities for targeted small businesses is consistent with the university’s interest in serving the broader community.

Approach to Evaluation

SFSU’s basic approach was to design and implement a series of interviews/surveys of the stakeholders of ETP, especially those directly involved with SBPP. We stressed in our approach that although the existing “Work Group” is included as an integral component of this assessment process, the SFSU team provides an independent perspective that is critical to an impartial review of public sector programs. Additionally, access to much of the baseline data (e.g., priorities of ETP, contractors’ contact information, access to required file and staff with pertinent information, etc.) required close cooperation with ETP or its designees.

The multidisciplinary approach and multiple sources of data shaped the plan to triangulate on the data and provide more reliable responses to the questions posed for this evaluation effort.

The project was structured around three phases:

- Phase I was spent developing interview questions, data lists of targeted small businesses, reviewing file data and consulting with ETP key staff or designees. Phase I activities took place primarily during March-May 2003.
- Phase II focused on empirical fieldwork with targeted businesses and analyses of data collected. Phase II activities took place primarily during June-August 2003.

- Phase III focused on reporting and additional analyses of data. Phase III activities took place primarily during September-November 2003.

Evaluation Research Questions

The evaluation of the Small Business Pilot Project addresses the following questions:

1. What are the successes and the failures of the Small Business Pilot Project? Did the project meet its stated goals and objectives? If not, why? How effective was the overall Small Business Pilot Project? What were the benefits to small employers in using the simplified SBPP process?
2. To what degree in FY 2002/03 did the SBPP assist the Panel in meeting its priority to serve small businesses in this State? (See section 4405. (a)(4), Title 22, California Code of Regulations. These can be found on the Panel's Internet Web Site located at www.etp.ca.gov.)
3. How well did the contracting processes and procedures implemented during the project assist small business employers in directly contracting with ETP?
 - Which procedures, if any, shortened the contract development process?
 - Which procedures, if any, assisted a greater number of small employers to secure ETP funds? Which procedures, if any, assisted a greater number of small employers to secure ETP funds than would have been served without the special considerations?
 - Can these processes and procedures be effectively incorporated into the regular ETP development function to assist all size businesses to directly access ETP funds more rapidly? If not, what changes to the process would enable large businesses to use the streamlined approach?
 - Can the procedures be effectively incorporated into ETP's multiple-employer contracts (MEC) and ETP's standard contracts? If not, what changes to the process would enable MECs to use the streamlined method?
 - Should any type of contracts be restricted from the SBPP process and procedures (e.g., Career Ladder, New Hire, Special Employment Training, etc.)?
 - Did the Small Business Pilot Project fixed-fee rate cover the cost of the training provided by the companies who participated in the SBPP? If not, what was the additional average cost to the companies who participated?
 - Was training of less than 40 hours per trainee under the SBPP an effective method for those small businesses that participated? Were there any projects that could have provided training in less than 8 hours? Would the training have been effective?
4. What was the average staff cost (in staff time, including travel) to develop and monitor an SBPP contract as compared to average cost to develop other (non-SBPP) ETP-funded single employer contracts serving small employers with fewer than 100 full-time employees?
5. How many SBPP employers would not have participated in the ETP funding had the pilot project not been available to them at the time they applied to ETP for funding? What would have been their reason(s) for non-participation?
6. Were the successful contracts representative of the priorities and other criteria established by the SBPP? Which, if any, SBPP priority areas were not represented?

7. Do the results of the pilot indicate the amount of dollars and/or training hours for the shortened development process could be expanded, as long as all other small business criteria are met, per the SBPP procedures?
8. Did the owners of the small businesses receive training under the Small Business Pilot Project? If not, what were their reasons for non-participation?
9. Should the Small Business Pilot Project be continued, and if so, with what changes and how much funding should be targeted at this effort?

Matrices of Information Sources, Questions, and Tasks

The SFSU evaluation effort offset the liability of small sample size by using multiple sources to corroborate the data. Interviews and surveys of ETP staff, participating employers, and trainees plus reviews of Pilot procedures, ETP legislative policy, and historical literature provide the depth of data necessary to create a baseline against which data for the remainder of the current year and future years can be measured.

To support the maximum utility of information sources, two matrices were created. One matrix defines the intersection of study tasks with the research questions of the study, then populates the intersections with the phases of data collection and sub-tasks that will provide the answers for the respective intersections. The second matrix defines the intersection of study questions with questions from the key data collection instruments of the study: employer survey, trainee survey, focus group interviews, and SBWG interviews (other instruments used modified versions of the same questions). Samples of the information organized by each matrix are listed below in Table 1:

Table 1. Sample Matrix Information

Matrix 1. Project Tasks vs. Project Questions – Sample

Question \ Task	Task #1: Assess the Success/Failure of SBPP
Question #3: How well did SBPP contracting processes assist small businesses?	Phases I-II: 1A: Interview ETP/SBPP key players to establish clarity on goals & objectives 1B: Interview 28 small businesses contracted under SBPP

Matrix 2. Project Questions vs. Instruments – Sample

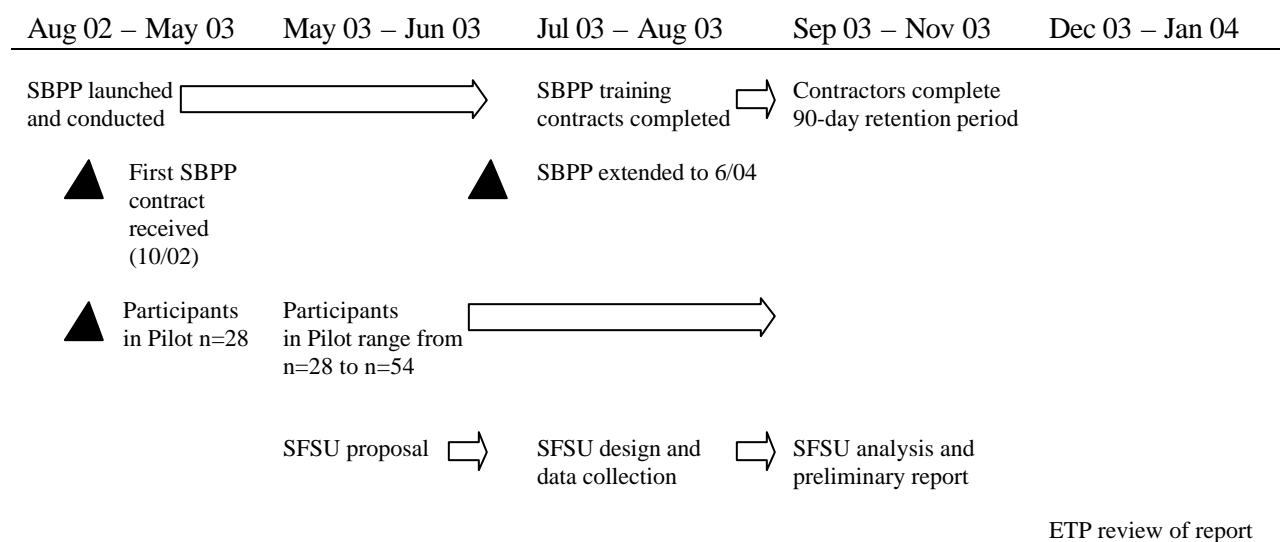
Instrument \ Question	Question #3: How well did SBPP contracting processes assist small businesses?
3A8: Impact of the maximum funding limit on ability to participate in the SBPP?	<i>Box marked with an X if data from the instrument question would help to answer the project question</i>

The full matrices are located in Appendix C. These matrices allowed the SFSU team to track incoming data for completeness and relevance to the evaluation. Note that the matrices were used as initial planning tools and were routinely revised as needed as the SFSU team implemented the plan.

Note Regarding Study Timeline

The timeline of the SFSU evaluation was concurrent with many of SBPP's pilot year activities. It may be helpful to the reader to keep in mind the following chronology, since it limited the availability of first-year Pilot data:

Table 2. Chronology of SBPP and SFSU Phases and Milestones



Note Regarding Approach to Evaluation – Policies and Procedures

For the purposes of this study, an important distinction must be made between **policies** and **procedures** as pertaining to SBPP.

Policies are the legislated or programmatic guidelines that influence program parameters (e.g. contract dollar limits, fixed fee reimbursement rates). Recommendations to change policies should be made with careful examination of the consequences to other parts of the system to avoid making recommendations that are 1) not practically actionable and 2) unnecessarily disruptive.

Procedures are generally task-oriented rules to help organize how a program activity is carried out through time (i.e. how and when an orientation is conducted). **Procedures** are more easily modified because they 1) tend to be under local control and 2) can be designed in multiple ways so long as they meet program objectives formed by policy. We have examined both policies and procedures for their efficacy.

Note on Study Limitations

Because of the concurrence of study activities with SBPP activities, it is too early to draw final conclusions from the data gathered in this study. The default small sample size and fluctuating population of SBPP did not always allow for statistically significant findings. However, the SFSU

Evaluation Team relied upon multiple sources to conduct its assessment; thus, we are confident that this study can contribute to the evaluation of SBPP in two ways:

- It provides well thought-out and reasonable “indicators” as to the effectiveness of the SBPP in light of the goals and objectives of ETP; and,
- It establishes important baseline data (e.g., on employer and trainee impressions, satisfaction and expectations) that can be used as benchmarks for future measurements and comparisons.

V. TOOLS

Data collection tools, which were developed to carry out this study’s objectives, included the following:

1. **Interviews** - Open-ended questions for senior ETP staff, field/operating staff, and program staff in Sacramento, multiple employer contractors (MECs) and employers; and focus group questions containing qualitative, quantitative, and open-ended questions (Please see Appendix D for the list of questions use to guide the open-ended interviews.).
2. **Literature review**– review of historical ETP data on service to small businesses, ETP internal documents, comparisons of ETP versus SBPP processes, State of California business sector data, and previously published reports on business training needs, approaches, and results.
3. **The SBPP Employer Survey** (referenced as ES in the remaining text), which was distributed to the original 36 participating SBPP employers known to us at the time we began our evaluation. The survey was distributed by mail with a request to return by mail, fax, or complete online (Please see Appendix E for full survey). The survey consisted of the following 6 sections tracking with the 6 evaluation areas:
 - Section 1 – Outreach: consisted of 5 questions. For example, “How did you hear about the Employment Training Panel (ETP) / Small Business Pilot Project SBPP?”
 - Section 2 – Eligibility: consisted of 4 questions; for example, “Did the orientation properly prepare you for the application process?” and “What was your biggest concern about the application process after the orientation?”
 - Section 3 – Special Requirements: consisted of 12 questions; for example, “How much of an impact did the length of the application process (*from receipt of blank application to draft agreement*) have on your ability to participate in SBPP?” with a scale of “No Impact,” “Very Little Impact,” “Moderate Impact” or “High Impact.” The follow-up question asked the respondent to explain why.
 - Section 4 – Processes: consisted of 5 questions; for example, “Do you have any suggestions for reducing the level of difficulty [of the application paperwork process]?”
 - Section 5 – Economic Benefit: consisted of 5 questions: the survey inquired into the employer’s perception of the training program’s impact on wages, retention, sales growth (projected and expected), and morale of employees; questions about wages included: “Has the training program already resulted in wage increases for your trainees?” and a follow-up question asked: “If not, is the training program likely to result in wage increases for trainees within 6-12 months after completion?” and “If yes, by how much on average?”
 - Section 6 – Overall Program Comments: consisted of 4 questions; one question asked the respondents to: “Feel free to comment on any additional observations you have made about the contract process.”

4. **The SBPP Trainee Survey** (referenced as TS in the remaining text) - Trainees were selected randomly from the SBPP employer pool by the last digit of their social security number (ending in 0 or 5). Trainees were asked permission to participate in the telephone survey via distribution of a letter sent to their employer (see Appendix F for letter). Trainees were asked whether they wished to be contacted at work or outside of work, with the understanding that their results would not be identified individually and every effort would be made to protect their confidentiality. The interviews with the trainees can be divided into four areas of inquiry (The full Trainee Survey is included in Appendix G):

- Section 1 - Perception of Training Process: consisted of 5 questions that were used to gather trainee perception of the training process, such as: “What kind of training did you receive?” with multiple choice responses of (a) Related to doing current job better; (b) New job; (c) Better understanding of the company; (d) Other.
- Section 2 - Perception of Outcome of Training: consisted of 5 questions that focused upon the trainee’s perception of the outcome. For example, trainees were asked: “How useful was the training to you **personally**?” consisting of the following choices: (a) Very useful to me personally; (b) Okay...no opinion; (c) Not very useful to me personally. A follow-up question asked: “Why/why not?”
- Section 3 - General Impressions of the Training Experience – consisted of 2 questions that asked for general comments. One question used was: “Is there anything else you would like to share with us about the training?”
- Section 4 – Trainee Profile: consisted of 2 questions that captured more individuating information. One question asked: “How long have you worked for the company?” The other question inquired into the trainee’s hourly rate.

VI. PROFILE OF STUDY POPULATIONS

The data collection process focused upon three groups of stakeholders in the ETP network: the SBPP employer group of some 54 small businesses; the trainee group of an estimated 400 to 500 employees; and selected ETP staff, Panel members and others (e.g., representatives from selected MECs and Workforce Investment Boards).

Profile of Universe of SBPP Contractors (n=54)

The SFSU evaluation included all employers known to be participating in SBPP during the course of our study. In some cases, these firms had not yet completed training and could not respond to our survey. Below we provide the general characteristics of the sample pool.

- Employees:
 - 31.5% had under 20 employees
 - 38.9% had 21-50 employees
 - 29.6% had 51-99 employees

- 31.5% had fewer than 20 employees
- Maximum Number of Trainees Enrolled in ETP contract:
 - 5 or 9.3% had 5 Trainees or less
 - 14 or 25.9% had 6-10 Trainees
 - 10 or 18.5% had 11-19 Trainees
 - 25 or 46.3% had 20 or more Trainees

- 53.7% had fewer than 20 trainees

- Business Sector
 - 75.9% were Manufacturing
 - 22.2% were Service
 - 9.8% were Other
- Almost 3/4 applications processed within 5 calendar days
 - Almost 2/3 conversion rate for RED received
 - Over 80% conversion rate after site visit

Table 3. Contracting Details for The SBPP

Size of Contract	Number of SBPP Contracts	% Of All SBPP Contracts
Under \$5k	18	33.3%
Over \$5k to \$10k	13	24.1%
Over \$10k to \$15k	7	13.0%
Over \$15k to \$20k	7	13.0%
Over \$20k to \$25k	9	16.6%
TOTAL	54 Contracts	100%
Averaged Amount Per Contract was \$11,261	Total Amount Allocated for SBPP was \$630,660	

Geographic Distribution of SBPP Contracts

The SBPP contracts were distributed throughout the state. The 54 contracts in the study were assigned to the four field offices in the following way: Los Angeles - 26, San Diego - 18, Sacramento - 7, San Mateo - 3. The majority of firms who obtained contracts were located within 60 miles of the field offices. Figure 1 presents a “pushpin” map of California with contractors identified by zip code.

**Figure 1. Geographic Distribution of SBPP Contracts by ZIP Code**

Profile of the Respondents of SBPP Contractors (n=29)

A total of 29 contractors responded to our Employer Survey (ES) either through the mail, by fax, or via the identical online version. Below we provide a description of the general characteristics of the respondents. Given the very small population size overall, the following statistics strongly suggest that the respondent population is an accurate representation of the overall study sample of 54 firms, for example:

- The average contract size for the respondents was \$11,990.00 which approximates the \$11,261.00 for the universe of 54 companies
- The average number of employees was 42 for the respondents versus 40 for the universe of 54 firms
- The average number of maximum trainees for the respondents was 22 versus 20 for the universe of 54 firms
- Approximately 70% of the respondents were from the manufacturing sector versus about 76% of the universe of 54 firms

Importantly, almost 9/10 (87%) of all SBPP contractors in the responding sample are new to the ETP system (ES2), which suggests another measure of the success of the SBPP. Those same respondents had not been involved in either MEC or direct contracting with ETP. By a 3 to 1 margin, respondents who had seen the traditional ETP process recognized that SBPP is easier, but the sample size for this data is too small to make this more than an observation. For these sample respondents who indicated that they were aware of the differences (41% of the sample) between the SBPP and the traditional ETP contracting process (ES4), the following comments were typical:

- “Much less cumbersome, very doable, and less overwhelming”
- “A lot easier, less complicated. My company participated back in early 90s”
- “There is much less upfront preparation with regard to the application. Much easier to complete for a small business with limited resources”
- “SBPP had shorter time period requirements; both in application process and length of program. The application process in SBPP was much easier”
- “Easier to do”

As noted above, the firms responding to the survey corresponded closely to the total pool of SBPP contractors in terms of the number of employees, trainees and size of contracts as noted above. Figures 2.1 and 2.2 below illustrate the distribution of SBPP contracts by dollar amount and number of trainees.

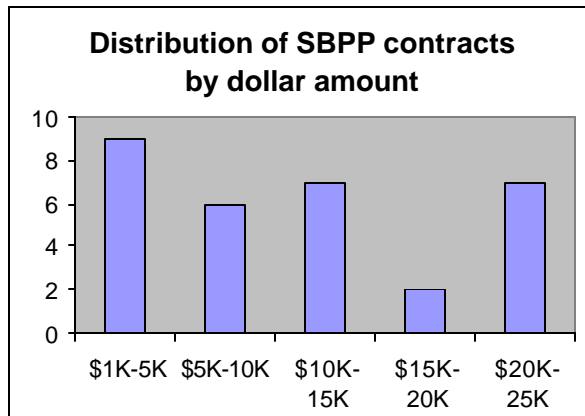


Figure 2.1 Frequency Distribution of SBPP Employer Survey Respondents by Contract Dollar Amount: Mean contract for the pool of respondents was \$11,955; n=29.

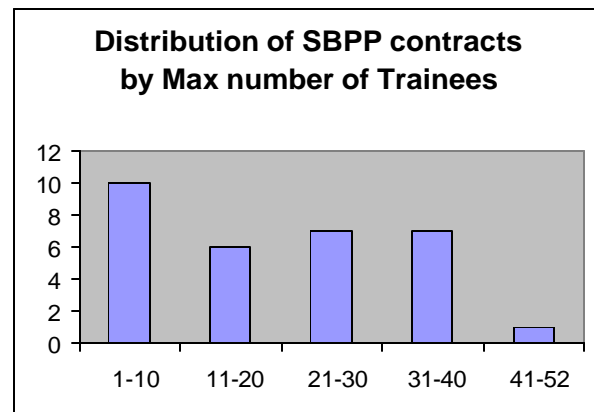


Figure 2.2 Frequency Distribution of SBPP Employer Survey Respondents by Maximum Number of Trainees: Mean number of trainees was 22.3; n=29.

Survey respondents represented both Manufacturing and Service Sector firms as noted in Figure 3:

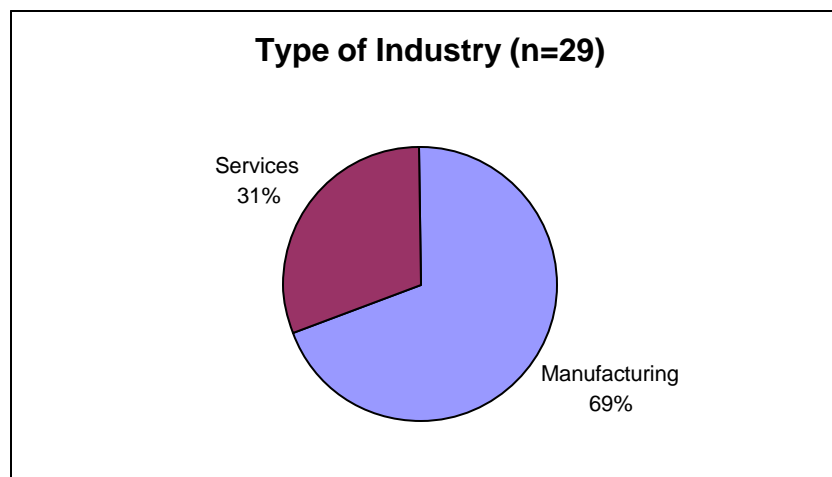


Figure 3. Distribution of SBPP Employer Survey Sample by Type of Industry. N=29

Profile of SBPP Trainees in Sample for Evaluation Purposes

A total of 54 trainees participated in our telephone interviews. Below we provide a general description of trainee profiles.

- Approximately 90% of the respondent had finished the training process as noted in Figure 4:

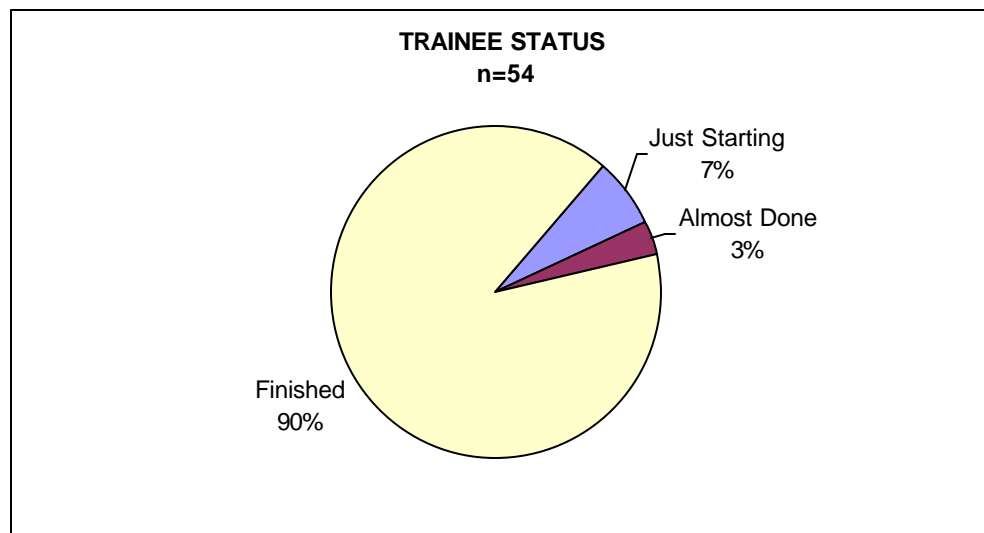


Figure 4. Status of Trainees at Time of Trainee Survey

- Approximately 2/3 had worked for the company for more than 3 years as noted in Figure 5:

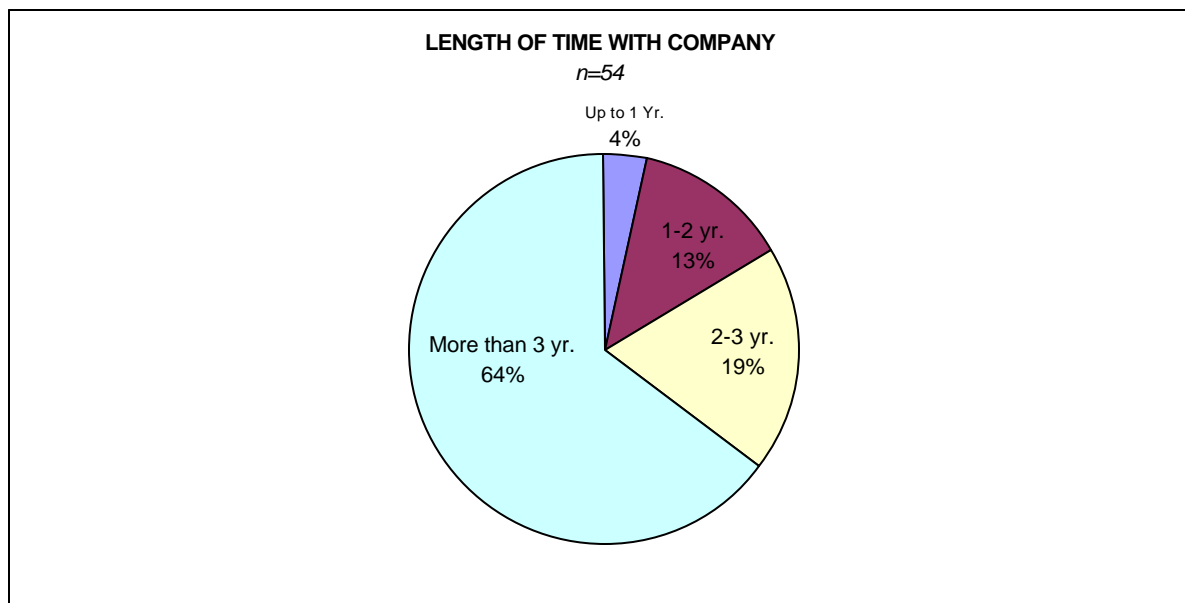


Figure 5. Trainee Length of Time with Company

- Slightly under half (46%) earned over \$20/hour at time of training
 - About 44% earned \$15-20/hour
 - About 10% earned \$10-14/hour

Profile of Key Players Included in Data Collection Effort

Meetings and interviews were conducted with the following groups:

- ETP Executive Staff and ETP Members (included based on availability)
- Small Business Specialists and selected staff in Area Offices
- ETP central office staff (included based on availability)
- Selected MEC and WIB key players

VII. RESULTS¹

Detailed Evaluation Results by Area of The SBPP

The key components of the SBPP examined in this evaluation are:

1. Overall success/failure of the SBPP
2. SBPP eligibility criteria
3. Outreach to and potential barriers for small businesses to participate
4. Orientation
5. Application and approval processes
6. Costs of the Program and economic benefits

Our detailed results are presented in the following section.

1. Overview of the Success and Failure of The SBPP

What were the benefits to small employers in using the simplified SBPP process? Among the competing approaches to measuring the successes and benefits of the SBPP, obvious ones would include measuring the project's actual numerical achievement versus initial goals and capturing feedback from the targeted companies and their trainees. In looking at the latter factors, the following summary statistics are noteworthy (see below for a more detailed breakdown):

Perception of Employers

Program rating. 92% of SBPP responding employers rated the program as “Good” to “Excellent” in terms of benefit to the company (ES39), and an overwhelming **96% of respondents will apply to ETP for additional training support** (ES36). Thus, any pre-existing barriers for these employers were outweighed by their positive experience of SBPP.

Economic performance. 48% predict a 4-6% gain in productivity directly because of participation in SBPP; another 31% expect a 1-3% increase within the next year (ES33B). Also, over half (57% of sample) expect sales to grow as a direct result of the training program (ES32).

Prevention of unemployment. Almost one-third (32% of sample) indicate that the training will result in retaining workers that might otherwise be laid off (ES31).

Influence on wages. An important factor for both the employer and the employee is that over 85% of employers (32% said “Very Important” and 54% said “Somewhat Important”) said the training was important in their future decision to give a raise to employees (ES29A-B).

¹ We have included in Appendix H a cross reference of the original 9 research questions to appropriate sections of the Results section for the convenience of the reader.

Perceptions of Trainees

Overall experience. An overwhelming 90% of trainees surveyed are willing to participate in SBPP again (TS11). Nearly 60% stated they “can perform current job better,” and approximately 26% “understand the company better” after training (TS10). Approximately 14% trained for a new job (TS1). Most respondents (70%) indicated that the timing devoted to training was “just right,” while 26% indicated that they needed more training (TS3). Our preliminary results indicate *trainees find the training offered through SBPP a positive and productive experience*.

Profile of Training Received

Type of Training

Trainees were asked what type of training they had received (TS1). Responses were characterized as to whether the training enhanced ability to perform the current job, increased understanding of the operation of the company, or provided training for a new job. Responses are summarized in Figure 6 below:

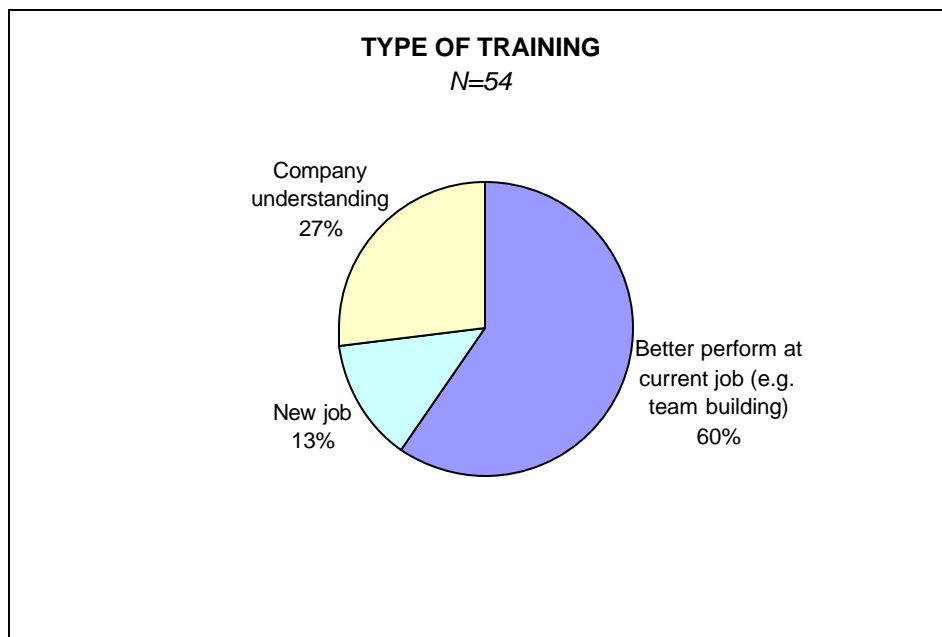


Figure 6. Type of Training Received by Trainees

- Approximately **60% can perform current job better** (multiple responses possible). Trainee comments in general related to morale, e.g.: “Happier and more confidence,” “Less stressful,” “(Am a) more compassionate supervisor now” or to task performance e.g., “Improved efficiency and productivity,” “Am a lot better with punctuation and word usage.”
- Roughly **27% understand the company** better. Comments again focus on morale-related issues, including interrelationships between departments and teams, e.g. “Know more about other departments” and “Better team member” to “Now understand that ultimately the client is high on the priority list for the company... in the jobs being done in the warehouse and production.”
- Approximately **13% trained for a new job**.

Length of Training

Trainees were also asked if **length of training** was sufficient or more was necessary (TS3). In general respondents were satisfied (see Figure 7 below), as 70% indicated that the timing devoted to training was “just right.” Twenty-six percent indicated that they “needed more training,” (in TS5, “needed more time,” about 12%), while 2% indicated that they “needed less training” (in TS5, “knew the stuff already” about 10%).

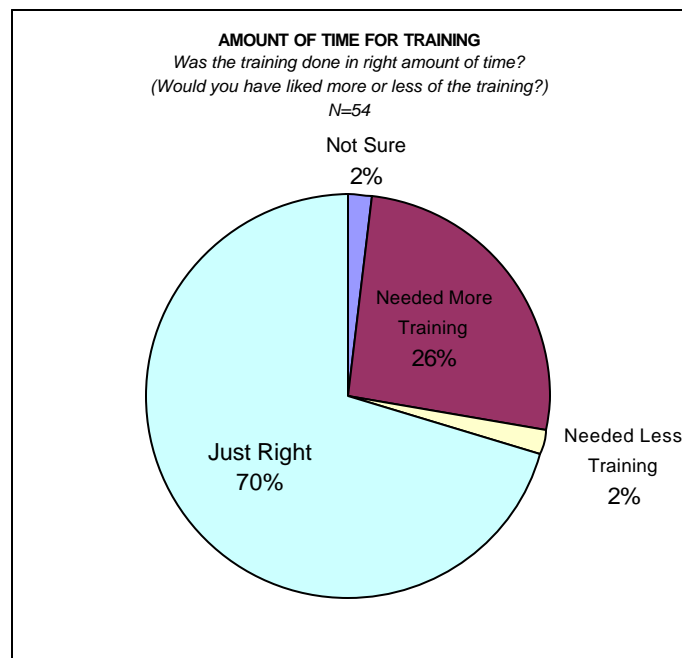


Figure 7. Amount of Time for Training

Workload Management During and After Training

67% of trainees said that “**no one**” covered their job during the training whereas approximately 30% of trainees had their job covered by a co-worker (TS4).

Trainees were asked if the training resulted in any **increase in workload** (TS8). Approximately 60% of trainees experienced “no change in workload” after training while 28% noted that their workload “went up.” Of those whose workload increased, 44% said their workload increased by about 5%, while another 35% said their workload increased by about 5-10%.

Objective Measures for Assessing the Success of SBPP

The following goals are taken from the Small Business Working Group’s recommendations given in April 2002, and the questions they developed for use in assessing the SBPP in its first year. We highlighted a few key goals as benchmarks to assess whether the SBPP met its original mandate. The goals on which we present findings include:

- A. Increase the total number of new small business contracts by a least fifty percent (50%).

- B. Improve the number of target and eligible firms who successfully complete application processing and receive funding approval by ETP
- C. Measure the overall effectiveness of the Small Business Pilot Project
- D. Determine if SBPP is consistent with the funding priorities of ETP

GOAL A: Increase the total number of new small business contracts by a least fifty percent (50%).

RESULTS:

Small businesses served. 54 firms were served between the first start date of SBPP (10/02) through the closing date (8/03), an increase in volume of 59% of contracts awarded directly to small businesses (through 6/30/03) over the previous year, which exceeds the target of 50%. The number of direct contracts is also up 38% over the historical 4-year average as shown in Figure 8:

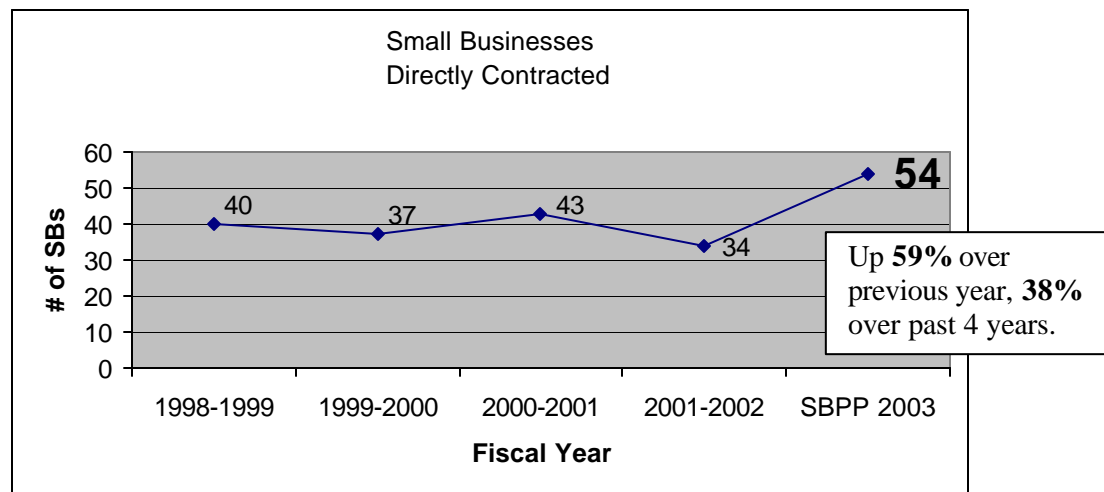


Figure 8. Small Business Direct Contracting by ETP through the SBPP

Historical contracting rates. ETP has achieved the vast majority of its contracting success through the MEC process. While the number of small businesses served increased from FY2000 to FY2001 (see Table 4 below), the number of **direct** contracts with the same pool of businesses historically has not exceeded 45 and actually declined in FY2001 (see above).

Table 4. Businesses Served by ETP by Firm Size for Fiscal Years 1998-2002

Firm Size	Fiscal Year	Number of Businesses Served
1 to 20	1998-1999	1,782
1 to 20	1999-2000	1,362
1 to 20	2000-2001	1,307
1 to 20	2001-2002	1,849

Firm Size	Fiscal Year	Number of Businesses Served
21 to 50	1998-1999	584
21 to 50	1999-2000	614
21 to 50	2000-2001	549
21 to 50	2001-2002	950

Firm Size	Fiscal Year	Number of Businesses Served
51 to 100	1998-1999	422
51 to 100	1999-2000	440
51 to 100	2000-2001	416
51 to 100	2001-2002	730

SBPP Improvements. Over the past 4 years, ETP has averaged some 2,750 contractors. State of California data suggest that approximately 2 out of three firms (approximately 33,000 firms) in the manufacturing sector have 100 or fewer paid employees and some 4,600 firms in the manufacturing sector have 20 or fewer paid employees (R2). Thus, the historical universe of potential contractors with fewer than 20 (or 100) employees for ETP appeared sufficiently large enough to continue an active push to grow its contracting activity in this area (even allowing for the eligibility issues related to the legislated mandates of ETP to be properly satisfied). However, ETP had been most successful up to now in increasing outreach to this pool via MECs, not via direct contracts. SBPP has exceeded the challenge of direct contracting with small businesses via the 59% increase in 2003 and has been deemed by the overwhelming majority of participating employers, trainees, and ETP staff as a success.

GOAL B: Improve the number of target and eligible firms who successfully complete application processing and receive funding approval by ETP.

RESULTS:

Approval rates and turnarounds. Three fourths (77.8%) of SBPP contractors were processed within 5 calendar days vs. an initial goal of less than 10 days. Fifty-four contracts were approved for the SBPP from 66 site visits, or 1 of 1.2 applicants, and from 84 RED received, or 1 of 1.6 applicants. Historically, ETP approved 1 of 2 eligible contracts for applicants with 100 or more employees; 1 of 3 contracts for applicants with fewer than 100 employees, and 1 of 4 contracts for eligible applicants with under 50 employees (R3).

Orientation. Also, although the sample respondents received orientation in a variety of venues, a full 100% of respondents agreed that the orientation properly prepared them for the application process (ES8). This strongly favorable response was noted in spite of the fact that this was the first time going through a complete orientation for 9 of 10 the respondents (ES7A).

GOAL C: Measure the overall effectiveness of the Small Business Pilot Project

RESULTS:

Overall satisfaction. One of the key ways in which the SBPP's effectiveness can be measured is the satisfaction of the participants with the program. The SBPP show strong results in this area because 90% of trainees are willing to participate in training such as was provided by the SBPP again, versus 8% who are not willing (TS11). Twenty-seven of twenty-eight (96%) employers responding stated they *will apply for training funds again*, leading us to believe that the SBPP has set its criteria at a threshold that allows small businesses to participate with a high level of satisfaction (ES 36).

Usefulness of training. Additionally, 74% of trainees rated training as "Very Useful Personally" (TS 9), making such comments as they have a "better feeling about dealing with people," or "better

decision making,” and also they “enjoyed the learning process.” Only 9% of trainees rate training as “Not Useful,” primarily because “(I) already knew the stuff.” 87% of trainees said training was “Very Useful to the Company” (TS10), for reasons such as employees being “more efficient,” having “improved co-worker relationship and proficiency,” and that training “will have a domino effect...people want to be trained to do their job better.” Only 4% said training was “Not Useful.”

GOAL D: Determine whether the SBPP is consistent with the funding priorities of ETP

RESULTS:

Exclusions. Training through the SBPP was selective because it did not involve the areas in which ETP has established a budget-based moratorium (e.g., truck driver training, non-frontline workers, certain first-time contracting entities and budget-based contracts.) (R3)

Inclusions. For the first time, training of small business owners was allowed and encouraged in ETP through the SBPP, as recommended by the SBWG. Thirteen (44%) of responding owners participated in the training (ES10).

Manufacturing Priority. Seventy-six percent of participating businesses were classified as manufacturing sector businesses, aligned with ETP’s legislative mandate and the SBPP’s priority of serving manufacturing.

Improved outreach to smaller businesses. As mandated, 100% of the 54 contracts in the SBPP were with employers with fewer than 100 employees: 31.5% had fewer than 20 employees, 38.9% had 21-50 employees, and 29.6% had 51-99 employees. The relatively equal distribution among these three categories shows that SBPP has the capacity to effectively reach out to even the smallest of businesses, with contracts as small as \$2,000, because small business specialists are able to initiate and monitor four SBPP contracts within the same amount of time that it takes for one standard ETP contract (R4).

Leveraging of training dollars. Employers who participated in the focus group suggested unanimously (and almost spontaneously) that the ETP funds only covered about 25% of their actual training costs, which indicates businesses participated in the SBPP despite the fact they would bear most of the financial burden for training (R5). What we gain from this information is that ETP is an appropriate stimulus for assisting small businesses in addressing their pre-existing training needs. The SBPP is consistent with ETP’s historic role supporting:

- Performance based contracting
- Partial funding of training cost
- A stimulus to encourage business owners to train a more competitive workforce within their companies

2. SBPP Eligibility Criteria

Fixed Fee Reimbursement Rates

We examined the impact of the two-tier current fixed fee reimbursement rate established for the SBPP (\$13 per hour of training for off-site training, \$20/hour for on-site) on the ability of small businesses to participate in the SBPP. The responses to the Employer Survey on this question (ES15) are summarized in Figure 9:

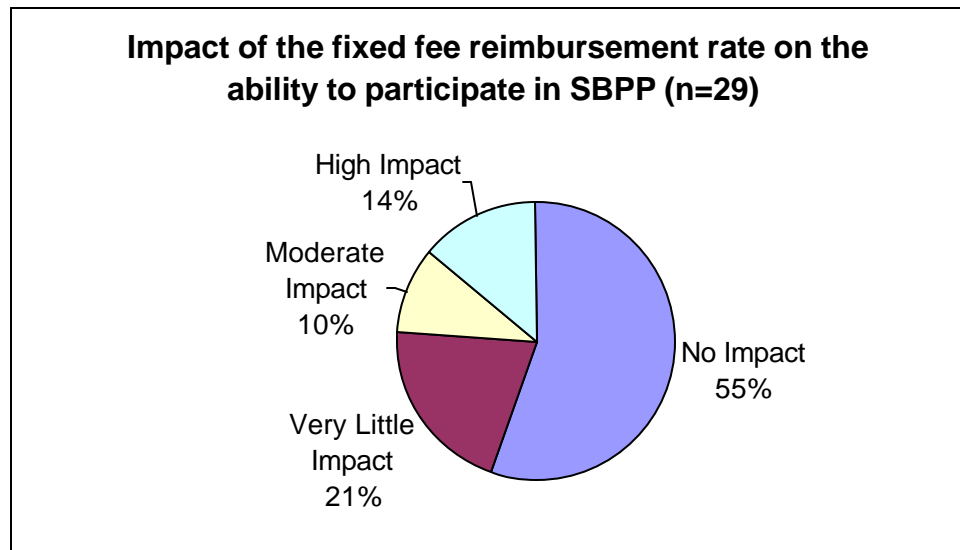


Figure 9. How much of an impact did the fixed fee reimbursement rate have on your ability to participate in SBPP?

When asked to elaborate, 7 (47%) respondents would have trained their workers regardless of level of the fixed fee reimbursement rate (ES15A). A typical comment from respondents was, “We need to train our employees; a lower fixed fee rate simply means it might cost us more to do the training.” The consensus among attendees of the Los Angeles focus group meeting was that the fixed fee reimbursement *covers only approximately 25% of their out-of-pocket costs*, since reimbursement does not include class materials, instructor preparation time, or administration. Even at the 25% cost coverage level, employers still feel it is worth their time to apply for SBPP funds and 3 (20%) respondents added that the available funds were the deciding factor in whether or not they could carry out training (R5).

It should be noted that 3 (20%) respondents did not know what the fixed fee reimbursement rate meant, which indicates a need for further information on the topic in orientation.

Further supporting the low impact of fixed fee reimbursement is the fact that 26 (90%) respondents did not reduce the number of trainees because of the fixed fee reimbursement rate (ES15B). The rate seems to have had a significant impact on only one employer, who reduced their participation by 10 workers specifically because of the rate. Combined with the response to ES15, we can infer that *the fixed fee reimbursement rate is not a barrier to participation in the SBPP for small businesses*.

\$25K Contract Limit

The Employment Training Panel established a limit on a single SBPP contracts at \$25,000. We examined the impact of this limit on the ability of small businesses to participate in the SBPP. The responses to the Employer Survey on this question (ES16) are summarized in Figure 10:

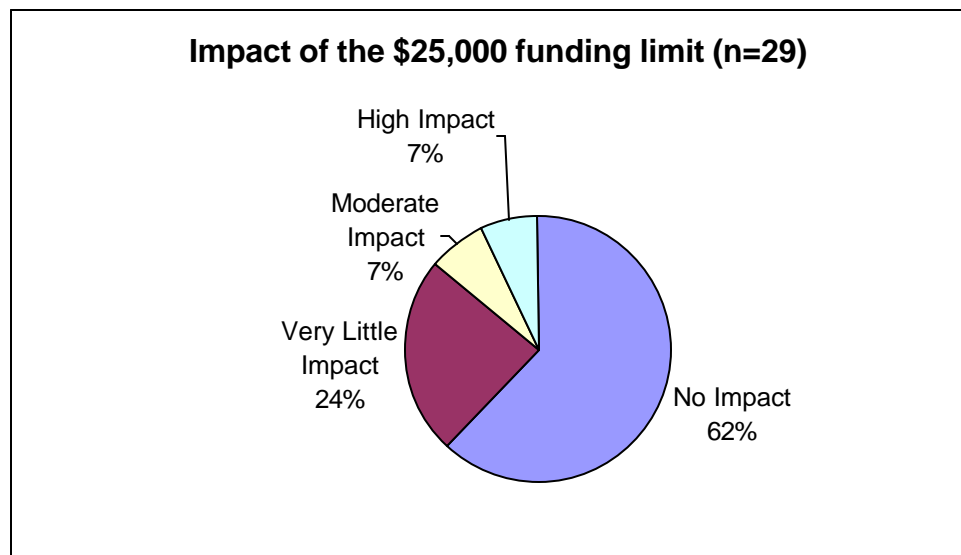


Figure 10. What impact did the \$25,000 funding limit for SBPP have on your ability to participate in SBPP?

When asked to elaborate, 12 (57%) respondents were well under the \$25,000 limit and did not see a reason to increase the limit (ES16A). The average SBPP contract was \$11,261. Those who responded “moderate impact” or “high impact” were close to the \$25,000 limit on their first contract.

Twenty-five (89%) respondents did not reduce the number of trainees specifically because of the funding limit (ES16B), as most contracts were well below the threshold. This response reinforces the result of ES16A. When asked “to what amount would you raise the limit to be able to train all of your workers who needed training,” 14 (82%) who responded indicated that raising the limit was “not applicable” (ES16C). Three (18%) respondents indicated the limit should be raised to \$40,000 or more, either because they were already close to the \$25,000 threshold or had reduced their number of trainees in order to participate in the SBPP.

SBPP analysts and ETP staff were also asked whether or not the contract funding limit should be increased. Initially, many responded “yes,” primarily to allow greater freedom to small businesses to extend training and to reduce the number of contract amendments; however, upon further discussion, the staff came to the consensus that the current limit is not a barrier to small business participation and raising it may have unforeseen policy implications, particularly with regard to contract auditing and Panel approvals. Also, opinions diverged as to whether employers should be able to apply for a single contract with the SBPP, or multiple contracts up to the \$25,000 limit, before being required to apply through the standard ETP program. It is outside the scope of this study to comment on this policy question; however the topic merits further research since it will resurface as an ongoing question for a stand-alone small business program. Accountability of public funds is a driving concern behind the reasoning of the staff on this question and many other policy and procedure questions (R4).

The combined responses to these questions lead us to believe that the **\$25,000 funding limit is not a barrier to small business participation** in the SBPP.

Training Hour Requirements

We examined the impact of training hour requirements on the ability of small businesses to participate in the SBPP. The current parameter for the SBPP is a minimum of 8 hours and a maximum of 40 hours. Twenty employers responded as to how many hours would be ideal for their training purposes (ES17). Answers varied greatly within the range 20 – 60 hours.

Seventeen (74%) respondents indicated that 40 hours or less of training were sufficient to complete the training desired and also a manageable amount of hours for a small business. When asked to elaborate regarding the number of hours selected, reasons varied, but 9 (37.5%) respondents indicated specifically that the time allowed was sufficient to cover necessary subject matter (ES17A). Five (21%) respondents answered that they could not give up additional production time or pay the cost of additional training, so the limit was more than sufficient. However, 4 (17%) respondents stated they could use more hours and 4 more stated they trained within the 40-hour limit because it was the maximum number allowed, implying it was satisfactory but perhaps they could have used more time. The Trainee Survey mirrors these findings, as 70% of respondents stated the training time was “just right” and 26% stated they “needed more training” (TS3).

A consensus among SBPP analysts and ETP staff indicates that *the training hour range could be widened to allow more flexibility*, particularly in combination with holding the \$25,000 contract limit constant (R4). We concur because the change is a small risk to ETP, and allows some employers with a very small number of trainees to provide more in-depth training. The SBPP may thereby gain economies of scale, e.g., a larger average dollar amount per contract (up to the limit) utilizes ETP staff time more effectively.

Elimination of Detailed Curriculum Requirement

The SBPP has eliminated the need for a detailed written curriculum as compared to ETP. We examined the reverse question of the curriculum parameter for the SBPP. The responses to the Employer Survey on this question (ES18) are summarized in Figure 11:

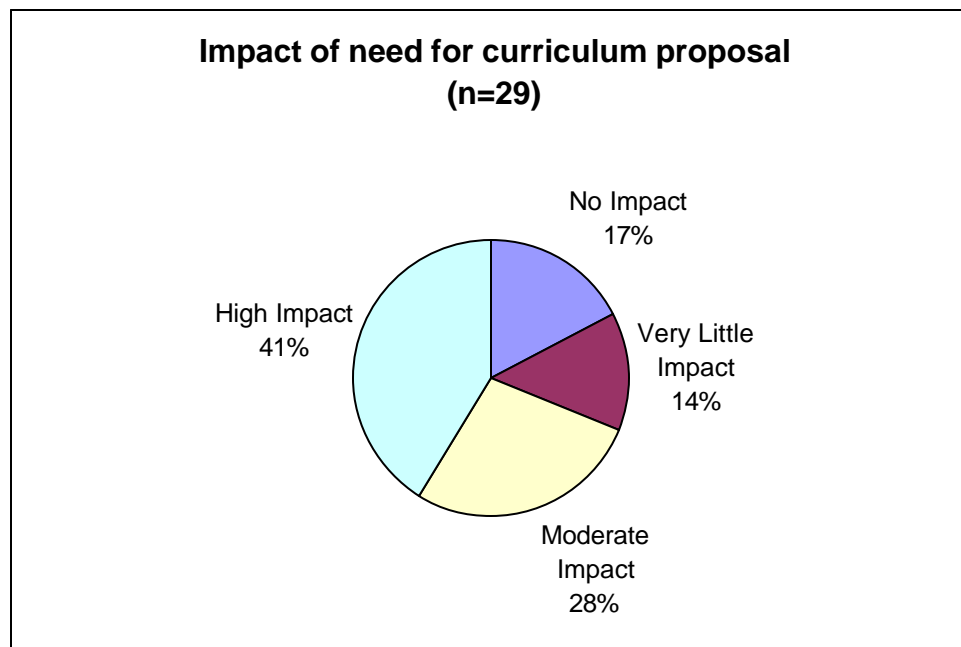


Figure 11. If you had been required to write a curriculum or very detailed training plan including schedules and subject topics, what impact would it have had on your ability to participate in SBPP?

Twenty (69%) respondents stated that having to write a curriculum would have had a “moderate” or “high” impact on their ability to participate in the SBPP. Three (12%) respondents would have dropped out or lost interest because of a curriculum requirement alone, and 2 more (8%) would have delayed the

start of training. These findings reinforce the notion that *time* (to administer program or away from production) is *a bigger factor for small businesses than actual dollars spent*.

The reasons for moderate or high impact varied, including no time or staff to allocate to writing a curriculum (13, or 52%), or too complicated (4, or 16%) (ES18A). For those who chose “no impact” or “very little,” they either wanted to write or did write a curriculum anyway (5, or 20%), or someone else did it for them (2, 8%).

Minimum Wage Requirement

SBPP maintains a minimum wage requirement for participation in the Program that differs by county. We examined the impact of the minimum wage requirement on the ability of small businesses to participate in the SBPP. The responses to the Employer Survey on this question (ES19) are summarized in Figure 12:

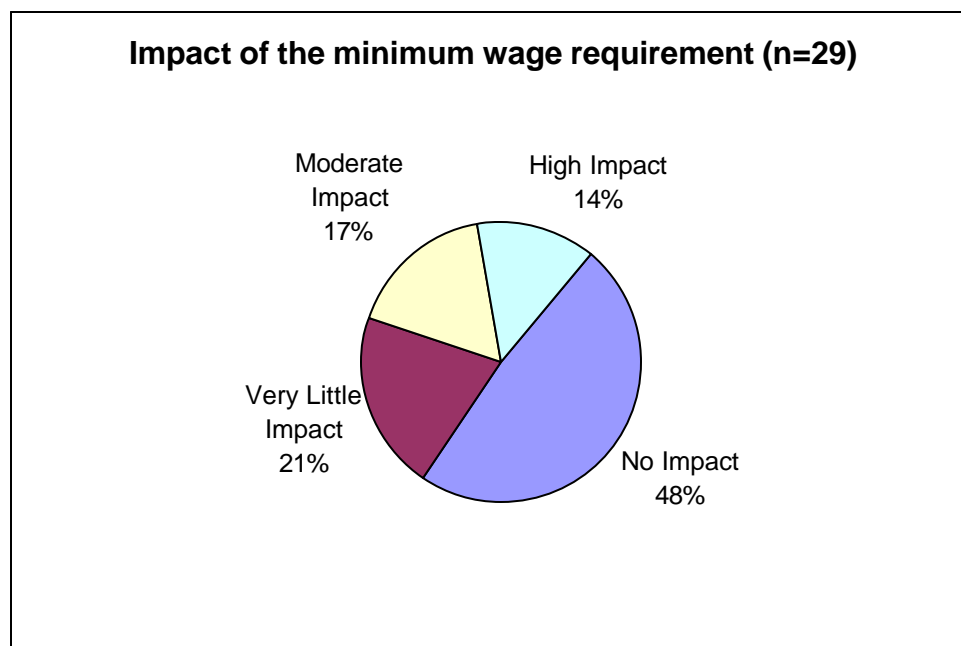


Figure 12. What impact did the minimum wage requirement have on your ability to participate in SBPP?

Twenty (69%) respondents stated the minimum wage requirement had “very little” or “no” impact on their ability to participate in the SBPP (ES19). The reasons given included 8 (29.5%) respondents stating workers were “already paid well above minimum wage;” 5 (18.5%) stating “met minimum;” 5 (18.5%) stating they could not include “a few employees;” and 5 (18.5%) “trained some below minimum anyway,” but not counting them officially with the SBPP (ES19A). Only 4 (15%) could not include “many employees” and a minority of employers expressed strong feelings that the workers who were paid the least generally needed the training the most, particularly to give them opportunity to advance in the long run (R5).

No respondents reduced the number of trainees participating in the SBPP specifically because of the minimum wage requirement (ES19B, ES19B1) – this is probably because they did not include (or count) ineligible workers in the first place.

As the minimum wage requirement is legislated and has extensive policy implications beyond the scope of the SBPP and our study, and even though some lesser-paid workers might benefit in the long run, ***we do not recommend any changes to the minimum wage requirement at this time.***

Contract Time Frame

Although responses tended to be positive on the question of whether or not the “contract time frame was sufficient to meet the retraining requirements” (ES24), the variability of the responses to the question as designed was deemed confusing and did not produce usable results for the purposes of the evaluation.

Other

We asked employers if there were any other requirements that impacted their ability to participate in the SBPP. Fifteen (62.5%) of respondents stated “none” or “not applicable” (ES21). Three (12.5%) respondents cited the 100% performance, 80% completion requirement (80% of trainees had to complete the training and finish their 90-day retention term before the employer could be reimbursed) as an issue. While the 100%:80% rule may be burdensome to some employers, it is consistent with ETP’s philosophy of “pay for performance,” which is a key to the Program’s success in motivating employers to follow through on contracts. Four (17%) cited time constraints to complete the training as an issue impacting their participation. Time continues to be a consistent theme of concern for small businesses.

3. Outreach and Potential Barriers

Some half of respondents (48%) indicated that ETP was doing a “poor” to “fair” job in reaching out to small businesses (ES1). Fewer than 2 in 10 (15.4%) heard about the SBPP from ETP. See the “Lessons Learned” section of this report for our suggested improvements in this area.

When asked “Do you know of other businesses that did not apply for funds because of SBPP requirements?” 26 (90%) respondents had not heard of other businesses who did not apply for funds because of SBPP requirements (ES22). This can be interpreted to mean that either 1) they were not aware of others who dropped out because of the requirements (the program is successful at converting applicants to participants), or 2) they simply did not interact with other businesses who applied to the SBPP (the applicants are isolated from other “peer” businesses). Our preliminary findings and earlier studies support the latter conclusion. In fact, one study found that consultants in particular benefit from the uneven information in the secondary training consulting marketplace created by small business isolation (R6). Almost 7 in 10 small businesses (69%) that participated in the SBPP heard about the program either from consultants, through their own research, or through other businesses that had already participated in the standard ETP program (ES1).

Owner Participation

Twelve (44%) owners participating in the SBPP received training (ES10), an opportunity unique to the SBPP, as owners could not participate previously since they do not pay into the Employment Training Tax fund from their salaries. This inclusion allows for a more equitable distribution of training funds, since small businesses account for only 1% of the ETP training budget (R3). However, owners could not participate in SBPP training if they had a master’s level degree or higher.

The most frequent reasons cited by owners for participating in training were to learn the same material as the employees being trained or to set a good example, increase participation, increase morale (5, or 19%) (ES10A). For owners who did not participate in training, the most frequent reasons cited were not

enough time or not an appropriate level of training (4, or 15%). The responses were almost evenly divided, with both sides expressing notably strong feelings about their participation or non-participation.

Awareness of Differences ETP Standard Program vs. the SBPP

About half of survey respondents (13 of 29, or 45%) had heard about ETP before they participated in the SBPP (ES2). Twelve of 29 (41%) noted differences existed between ETP and the SBPP (ES4), consistent with the response to ES2 that they would be aware of differences based on previous knowledge of ETP.

However, when asked later in the survey, “Did you know that the Small Business Pilot Project has different requirements than the regular Employment Training Panel contract process?” (ES11), 23 of 28 (82%) respondents indicated “Yes.” And again, when asked “Were you aware that the fixed fee reimbursement rate for small employers had been increased from the mainstream program?” (ES14), 20 (69%) responded “No.” Since the majority of participants in the SBPP were first-time contractors, we believe the variability in the awareness between ES4, ES11, and ES14 is related to the newness of the Program and the specificity of the question. Thus, a participant might be aware at a high level that differences exist, but not be sure how to describe the differences.

Analyst Role in Facilitating Access

When asked, “How would you rate the accessibility of your ETP analyst?” (ES25) 18 (67%) respondents rated their analyst as “Mostly Accessible” with 15 of 18 (83%) stating that their analyst was “always willing to help” or was “very responsive” (ES25A). These comments were reinforced by focus group attendees, who universally praised the analysts as key to the success of the first-time contractor (R5).

When asked “With what did you need the most help from the analyst?” sixteen (70%) respondents were looking for help beginning the SBPP paperwork, particularly with interpreting regulations (35%) or general guidance, analyst time or prioritizing (35%) (ES26A). Again the focus group attendees and the analysts believe that subsequent contracts could be completed by the employer without outside help, whether from an analyst or consultant, and survey respondents were pleasantly surprised at the overall ease of the paperwork process compared to their expectations after the orientation (ES8A).

When asked, “How many site visits were made by your analyst?” (ES27), responses ranged up to 4 visits, with 3 visits being most frequent (11, or 39%), and 2 visits next most frequent (6, or 21%). The use of site visits is an important part of the process with regard to the 100% auditing requirement placed on the SBPP, however, analysts are proactively making efforts to reduce the number of in-person site visits where possible and replace them with phone calls, email, and fax exchanges as the number of contracts increases (R4). How site visits were initiated and followed up varied widely between offices, in part due to geographic considerations.

4. Orientation

Small businesses were asked “Did orientation properly prepare you for the application process?” to which 28 (100%) respondents replied yes, independent of the type of orientation (ES8).

Twelve (50%) respondents felt that either the amount of documentation, meeting deadlines, or possibly making mistakes on the application were still potential concerns after the orientation (ES8A). These concerns may be classified under the broader category of concern about the level of attention required to participate in the SBPP. These concerns were reduced during the course of the program since 54% indicated the level of difficulty of paperwork was “Easy” to understand without problems (12, or 54%)

(ES23A), or “Easy” but time consuming (an additional 5, or 23%). All focus group attendees indicated that after this initial contract, they would not have the same concerns for future contracts and could complete paperwork without an analyst’s or consultant’s help.

No matter what type of orientation received or by which venue it was received, 28 (97%) respondents felt orientation was presented and organized either well or very well (ES9), which can also be seen as a positive comment on the new online orientation in its first year of operation.

5. Application/Approval Process

Application Process

When asked, “How much of an impact did the length of the application process (from receipt of blank application to draft agreement) have on your ability to participate in SBPP?” (ES12), 21 (73%) stated the length of application process had “Very Little Impact” or “No Impact.” One respondent commented that the “process was painless,” (ES12A), echoing the sentiments of most respondents. A minority were impacted because their training was already scheduled and the funds lagged behind.

Of those responding to “Approximately how much time did it take from the time you received a blank application until you submitted it?” (ES12B), 19 (76%) were completed within one month, 11 (44%) within one week, and 4 (16%) in less than 2 days.

When asked “How much effort did it require for you to complete the ETP contract document?” (ES20), 14 (50%) responded it required “Minimal Effort” and 13 (46%) responded “Moderate Effort.” For those responding “Minimal Effort,” reasons given (ES20A) included that the contract was self explanatory (5, or 26%). Reasons given for “Moderate Effort” included getting help from an analyst or a consultant (8, or 42%). When asked, “Approximately how much time (your best estimate in terms of hours or days) did it take to complete the contract document?” (ES20B), 20 of 23 (87%) respondents indicated it took less than a day, and 9 (39%) indicated less than 2 hours. Thus the contract itself appears to be straightforward, and the additional help received by some 40% of respondents limited their preparation time to under 2 hours.

When asked “What was the level of difficulty of the paperwork requirements?” 10 (34%) respondents rated the level of paperwork difficulty as easy and 18 (62%) rated the level as moderate with qualifications (mostly time constraints) (ES23).

When asked, “Do you have any suggestions for reducing the level of difficulty?” (ES23A1), a few widely varying comments were made, including:

- “fill out all online, if possible.”
- “let us fax our sign-in sheet rather than hand-entering every person for every class.”
- “give a simple 3-ring binder with application information in it ...give a definition of terms.”

And finally, when asked “How easily could you have accomplished the contract paperwork without an analyst’s help?” (ES26), 11 (39%) stated “Easily” or with “Minimal Difficulty,” while 17 (61%) stated they would be able to complete the paperwork with “Moderate Difficulty” or “Not at all,” which is qualified by the fact that this was the first time utilizing the SBPP for 9 of 10 applicants and a consistent theme in the focus group was that the help is needed once only. ***Thus, ease of understanding paperwork was not a barrier to participation of small businesses in the SBPP.***

Approval Process

When asked, “How much of an impact did the length of the approval process (from draft agreement to receipt of signed contract) have on your ability to participate in SBPP?” 21 (76%) of respondents stated the length of the approval process had “Very Little Impact” or “No Impact” (ES13). Six of 17 (35%) stated the approval process was fast (ES13A). If respondents indicated it impacted them significantly, it was because they needed to begin training immediately.

When asked, “Approximately how long did you wait from the time you submitted your application until you received a signed contract?” (ES13B), responses ranged widely but fell primarily (16, or 62%) within 3 weeks to 2 months. Five (19%) contracts were approved in less than 3 weeks. ***There do not appear to be any major barriers to participation in the SBPP because of the approval process.***

6. Costs and Benefits of the SBPP Program

From our interviews of ETP Panel members, administrators and staff, we discovered a widely held perception of a fundamental tension between the benefits and costs of the SBPP program. One senior staff member confirmed this tension, writing that:

“The entire Panel supported undertaking the SBPP. The SBPP is a priority in the ETP strategic plan adopted by the Panel. However, Panel members are concerned that administering relatively small single employer training contracts – even using a streamlined administrative model - might use up a disproportional amount of staff and administrative resources. They are looking for evidence that the SBPP can operate cost effectively - particularly in light of budget constraints and reduce administrative resources.” (R7)

However, it must be kept in mind that small businesses utilize less than 1% of ETP training funds while generating a significant contribution to the economy (R3). In California, the contribution of small businesses has the following relevant characteristics shown in Table 5:

Table 5. California Census, 1999: All Industries by Manufacturing Sector (R2)

	Total	20 + Employees	100 +	500 +
ALL INDUSTRIES	651,105	12.40%	2.70%	0.90%
Paid Employees	12,356,363	81.20%	61.60%	46.90%
	Total	20 +	100 +	500 +
MANUFACTURING	46,410	29.70%	8.50%	3.10%
Paid Employees	1,792,190	89.60%	67.20%	46.20%

ETP files from previous research suggest that a focus on manufacturing is appropriate as the best strategy to leverage public training dollars in California (R8). Thus, the importance of small businesses to California, in particular the manufacturing sector, deserves the new priority that ETP has placed on strengthening their viability through training.

Costs of the SBPP

Panel members confirmed their perception that the SBPP would be disproportionately costly to ETP, and other interviewees varied on their sense of the benefits of a program that was too costly to administer. In

the pilot project, the mean contract size was \$11,261 and the mean number of trainees per contract was approximately 20 (see Figures 2.1 and 2.2).

Even if we recognize the increased approval rate of SBPP contracts, and the efficiencies of the contract development process, it is still clear that there are significant costs to the SBPP process. On the front end, each of the field offices employs a Small Business Specialist who during the pilot program was assigned to the development of SBPP contracts. On the back end, there are monitoring costs that become disproportionate when measured against the dollar amounts of contracts. And even using the specialists' own estimate that they are able to develop "four times" as many contracts under the SBPP streamlined process as under the standard one, there is still a lag in cost effectiveness of small contracts versus the larger ones that are available through the standard and MEC programs. On the other hand, as one field office manager observed, "The key thing to keep in mind is that we used to make significant efforts with small businesses in the past, before SBPP, and the effort was wasted because they could not complete the application and contract process. Now, with SBPP that effort is effective." (R4)

The question of cost effectiveness could in and of itself dampen enthusiasm for the SBPP. But **effectiveness** is only one of the "E's" that needs to be considered. The other is **equity**, and as we have noted in Table 5 the contribution of small businesses to the California economy in general and to the ETP funding in particular is considerable. All involved recognize the need to address this equity issue, including Governor Davis, who set a target goal of awarding 25% of all government contracts to small businesses.

Key interviewees added the following thoughts:

- The primary purpose of the SBPP is to serve the small businesses, not to make it easier for the field offices. The most important objective is increasing the utilization of training money, especially meeting the needs of those who have not been able to successfully participate in the traditional ETP process.
- The SBPP meets the custodial purpose consistent with the use of public training funds. It is their tax; it's their money. SBPP meets the objective of [small] companies; makes it easier for the small guys. (R7)

Addressing equity concerns is an issue within every government agency, and generally impacts cost effectiveness. As explained to us by administrative staff, ETP addresses this issue allocation of discretionary funds toward programs that reach out to targeted populations. Administrative costs of ETP are legislated to remain below 15% of the program's size. Until the recent dramatic budget cuts, these costs had stabilized at around 10% (R9), thus leaving some room for prioritization of specific programs. Certainly administrative decisions need to be revisited within the current constraints placed on ETP, but at the time of the pilot, the costs for operating the SBPP were covered within discretionary funding.

Benefits to Companies and Trainees

In our interviews with administrative staff, we repeatedly asked how the success of the SBPP should be measured. Responses were consistent from this statement from one senior staffer: "The most important thing to consider is our return on investment. I'm not talking about the administrative costs but on whether or not the funding dollars make a difference: do they reduce unemployment, increase worker retention, increase wages, and improve earnings." Another comment noted was that ETP is an excellent example of a public/private partnerships that work, and it works because businesses must assume part of the risk. Therefore costs must not only be viewed from the perspective of the government program; both parties in the ETP process experience some costs. Additionally, small businesses bear a disproportionate amount of the cost relative to their total operating budgets and perhaps require a different method for

estimating cost than that used in traditional ETP programs. So far as we know, the ability of small businesses to bear the disproportionate burden of training costs relative to the rest of their budgets has not been researched and documented.

To evaluate the SBPP within these criteria we included specific questions in both the Employer and Trainee Surveys. With the caveat that the results must be viewed as projections as opposed to actual gains (the study was conducted too soon after training was complete to be a measure of real gains), the responses in both surveys were overwhelming positive.

Benefits to Trainees

Wages

Employers and trainees were asked about the impact of the training program on trainees. In particular we examined whether or not training resulted in increased wages, employability, and morale. Twenty-one percent of employers (n = 29) said that the training program *already* resulted in raises (ES29), and more than 80% of the others said that they anticipated raises to the trainees in the next 6-12 months (ES29A). When we probed deeper to determine how important the training itself was in influencing the decision on raises, 32% of employers said it was very important and an additional 54% said somewhat important. (ES29A2). And when asked whether or not trainees would be eligible for wage increases, benefits, or recognition that other employees are not within 6-12 months of training, 38% of respondents (n=26) said yes (ES30).

The Trainee Survey verified this result – 24% of trainees (n = 54) responded that they had already received raises (TS7). It should be noted that most of these raises (95% - ES29A1) were in the \$1-2 per hour range.

Retention

Trainees were asked, “Do you feel that you are NOW more employable than before?” to which a significant 68% responded yes (TS2). The result is particularly interesting in light of the fact that the number of training hours was small. Many trainees suggested that more training be provided, but with even within the limits of the SBPP, the impact of training on employability is strong.

Employers were asked whether or not the training will allow them to retain workers who otherwise would have been laid off to which 32% of respondents (n=28) answered affirmatively.

Morale

Training can also result in indirect impacts on employees by providing them greater opportunities, more confidence and independence, and improved working relations with fellow employees. We asked both employers and trainees about these less tangible outcomes. Figure 13 below summarizes employer responses characterizing other consequences of training (ES34).

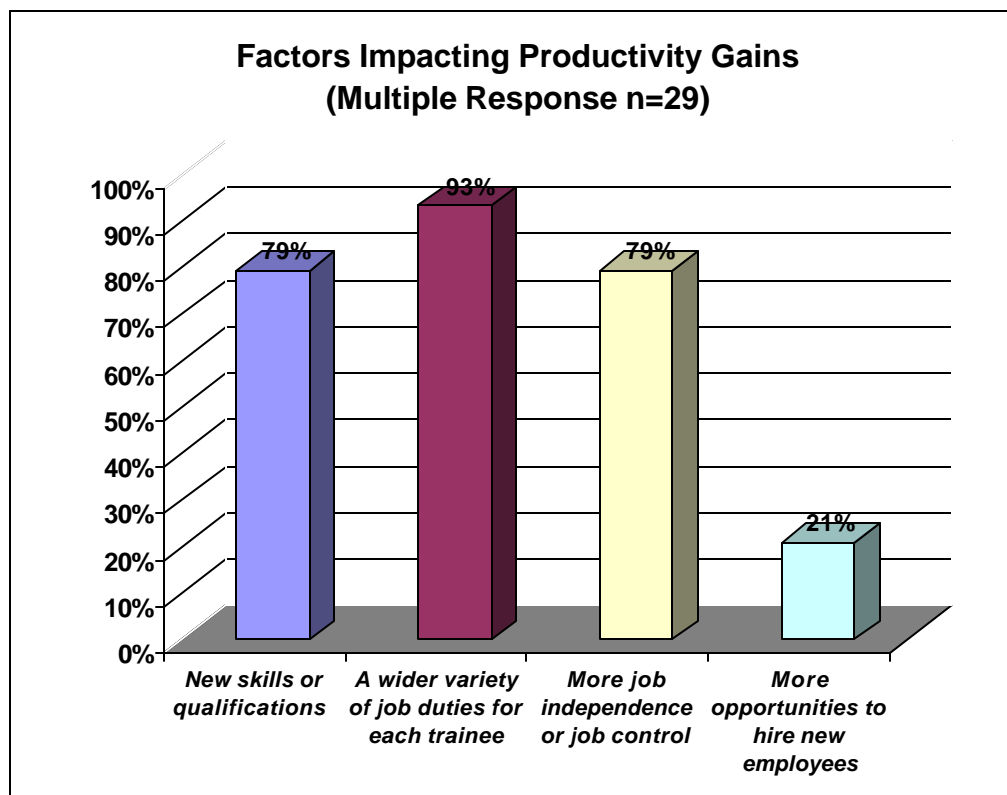


Figure 13. Employer Responses to ES34 Characterizing Other Impacts of Training Program.
(Multiple responses allowed)

A few employers provided other examples of impact such as “organizational influences in workplace that make for a more pleasant and effective workforce”.

In the trainee survey, 74% of respondents (n = 54) said the training was “very useful” to them personally. And several trainees made comments that went beyond wage and employability increases, such as “<the training> was a great idea because ... it went beyond just doing my job better and helped in understanding how to help co-workers” and “we were all happy after class and very enthusiastic about the training and interacting with our co-workers.”

Benefits to Companies

Both trainees and employers were asked about the impact of the training on their companies. Significantly, 87% of trainees responded that the training was “Very Useful” to their companies (TS10).

Employers were asked how the training would impact sales growth and productivity. Responses, again, were significantly positive. To the question, “Do you expect your sales to grow in the next 6-12 months as a direct result of the training program?” 57% of respondents said yes. The responses to a follow-up question as to how much growth are summarized in Figure 14 below:

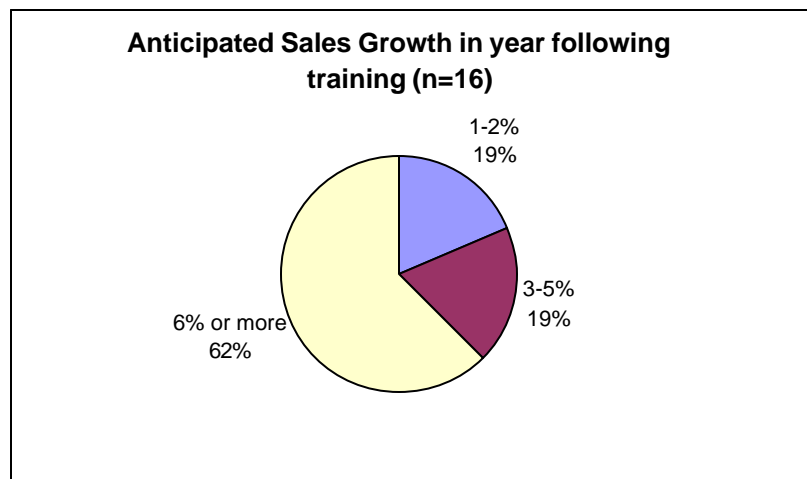


Figure 14. Anticipated Sales Growth by SBPP Companies in Year Following Training

Employers also provided positive responses to questions concerning productivity gains. 100% of respondents (n=29) said that the training program would increase productivity of their workers (ES33).

Figure 15 below summarizes the employers' response to our probe as to which factors will contribute to the productivity gains.

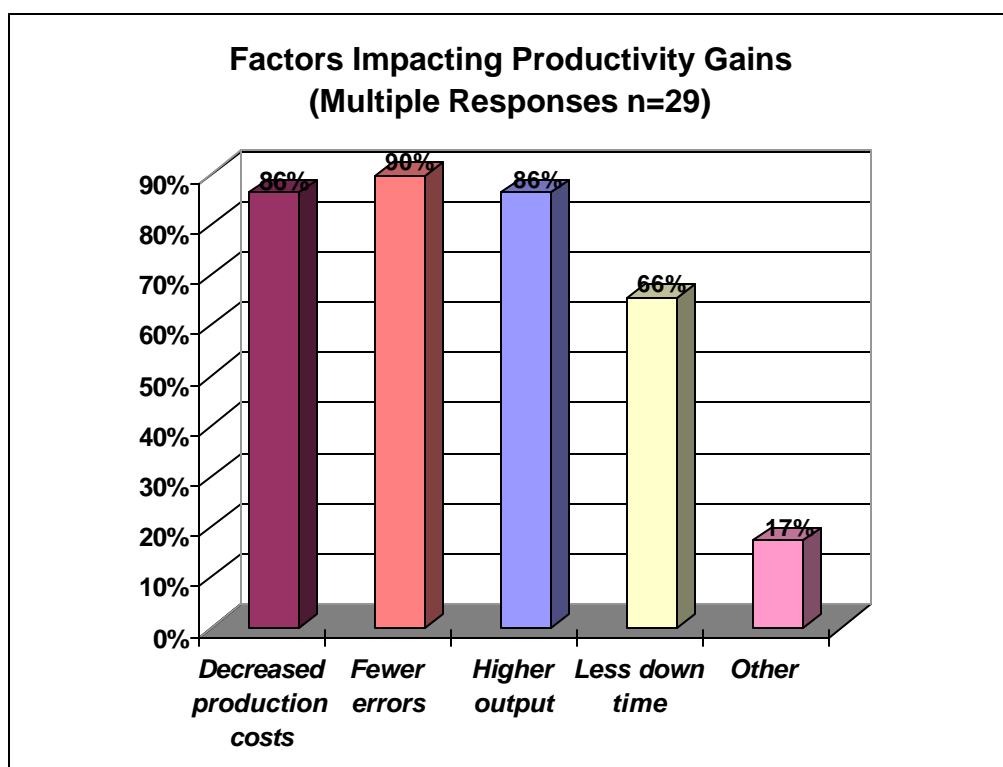


Figure 15. Factors Contributing to Productivity Gains as a Consequence of SBPP Training

Employers were also asked to estimate the amount of productivity gains in their company over the next 6-12 months. Figure 16 below summarizes their responses.

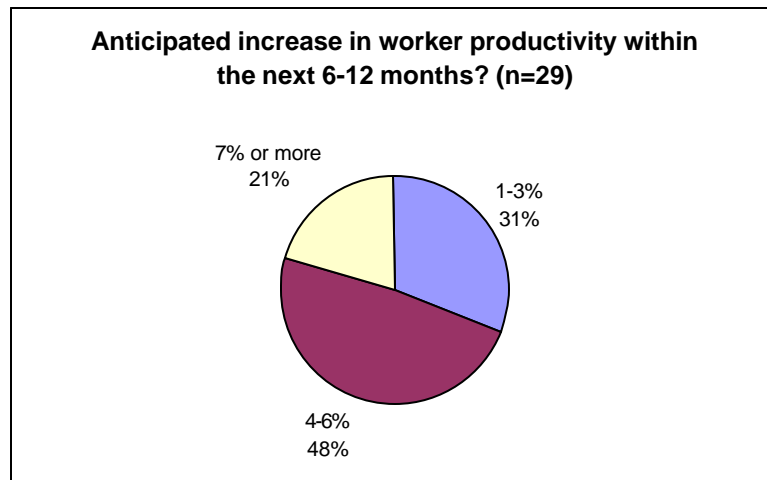


Figure 16. Estimates of Increase in Worker Productivity at SBPP Companies

In summary, it is clear that trainees and employers alike found the SBPP program to be beneficial to their future goals. Training, even in the small scale of the SBPP, does work.

VIII. LESSONS LEARNED AND RECOMMENDATIONS

Overall Success/Failure of the SBPP

Based upon the data collected under this evaluation effort, the SBPP is achieving its key goals:

- Increasing the number of small businesses holding direct contracts with ETP;
- Streamlining and shortening the application process;
- Ensuring shorter contract approval time for such contract; and ensuring more prompt payment of these contractors².

The number of small businesses holding direct contracts with ETP is up over 59% (to 54 small businesses) over the previous year and up 38% from an average of 39 over the past four years. Almost 90% of SBPP contractors are new to the ETP system, suggesting that the SBPP is attracting those who have not previously done business directly with ETP. Additionally, in the evaluation sample, almost one-third of contractors (31.5%) have fewer than 20 employees, which is a segment of small businesses that has proven historically to be a very difficult group to reach with traditional ETP contracting procedures.

Other indicators of success include:

- The conversion rate from eligibility through site visit to actually contracting under the SBPP has been better than the 1 out of 2 ratio for the most successful contractor group according to the ETP track record for its traditional process:
 - Approximately 75% of applications to the SBPP were processed within 5 calendar days of receipt.

² The prompt payment system seems to be in place, but it is too early in the process to evaluate this component of SBPP.

- Approximately 80% of applications became active contracts after the initial site visit, suggesting success of the online orientation and the high level of commitment of the staff and small businesses.
- Approximately 75% of the SBPP contractors were in the manufacturing sector, consistent with the historical priorities of ETP
- The average SBPP contract was slightly over \$11,000, indicating the minimal impact of the \$25,000 ceiling on attracting contractors.
- Approximately 92% of the participating employers rated their overall experience contracting with the SBPP as “Good” to “Excellent.”
- An overwhelming percentage of Employers (96%) and Trainees (90%) expressed desire to continue to work with ETP-supported training in the future, suggesting that the Pilot was a comfortable way for small businesses to enter into the ETP system and take advantage of the training funds:
 - Approximately 60% of employees say they can “do the job better”
 - Approximately 79% of employers expect a gain in productivity as a result of the training
- Almost unanimous sentiment from staff that the SBPP works and meets the program priorities of ETP (cost issues addressed below); one analyst noted that “none of the employers with whom I worked under this Pilot would have gone through the process of writing a comprehensive Certification Statement (concept paper) which is the first step of the mainstream process.” As noted by a senior staffer of ETP: “The purpose of undertaking the SBPP was to explore an alternative model for serving businesses that might not otherwise be served under the standard single employer and MEC approaches.” ETP expected the SBPP to identify and test program improvements. The preceding quote captures the prevailing view among staff that the SBPP is meeting at least the part of its goal, which deals with streamlining and outreach to an underserved constituency.

All data collected tend to support the observation that these objectives have been largely met. The SFSU Team makes the following overall recommendations:

Recommendation Set #1: Program Continuation

It is our recommendation that *ETP continue the SBPP for another 24 months*; it should drop its “Pilot” designation and evaluate the program again after the second year for final designation as a staple of the ETP service system. A positive outcome of dropping the “Pilot” designation would be to facilitate giving SBPP a mainstream look and help merge it into the ETP process. Although the evidence in this study clearly indicates that the SBPP is an effective tool to attract small businesses into the direct contracting network of ETP, this evaluation cannot fully assess economic impact along the lines typically used by the traditional ETP process (e.g., impact of training on wages, job retention, productivity, etc.). Additionally, this evaluation was not tasked to assess the ability or inability of existing training entities (e.g., MECs) to provide training services to the small businesses that opportunistically embraced SBPP.

It is recommended that ETP maintain the “Small Business” designation to provide visible and clear attention to the issue of “equity” which requires ETP to continue to find ways to serve smaller businesses within the State, especially those with fewer than 100 employees.

We also suggest that small businesses be exposed to relevant data on MECs as part of the online (and in person) orientation to SBPP. During the orientation process small businesses that wish to participate in SBPP can ***be required to certify that their needs are not being met*** by existing ETP programs. Data on MECs should include:

- Geographical coverage
- Training foci
- Current population served
- Industry served
- Contact information
- Ability to meet customized training needs of a single or small set of employers, etc.

This type of information could then be used to inform applicants to SBPP of other possible approaches to meeting their training needs and thereby help identify voids in the marketplace while minimizing duplication of effort between the MECs and SBPP.

Additionally, in developing the MEC database, the ETP system would then be in position to:

- Develop a cost effective strategy that directs some small businesses to the more efficient training processes of MECs; once developed, the information database of MEC can be appropriately integrated into the online orientation process of the SBPP.
- Assist staff in addressing the more difficult questions of the cost/benefit equation as it relates to the SBPP; we note with little controversy that SBPP is more costly to administer than traditional ETP processes; however, if the training needs of SBPP applicants are supported by the collected data to be truly unique and not served by existing ETP tools, then the question of equity gains greater validity in arguing for institutionalizing the SBPP streamline approach and directing it toward those who otherwise fall outside of the traditional and MEC processes.
- Position the SBPP as a service tool that significantly enlarges the ETP service system; the SBPP may then specifically budgeted for particular targeted markets (i.e., self-identified and certified small businesses that fall outside the existing ETP network in terms of specific reasons that are systematically captured at time of orientation to the SBPP).

Additional complementary recommendations for this set include:

- ***Make the SBPP an initiator program*** whereby small businesses who complete their first contract have access to additional small business resources, i.e. where they can learn how to join MECs or apply to the mainstream program for subsequent funding. The program thus becomes the “Small Business Launch Program.” This reflects the sentiments from staff and focus groups that the SBPP actually does “*launch*” small businesses into a direct relationship with ETP and ETP can serve as a gateway to other government services that help small businesses.
- ***Expand this current evaluation effort to develop a strategy that provides a path for follow-up training and assistance*** after the companies’ successful completion of the “launch” program. This is responsive to a strong theme expressed in the focus groups that asked what programs were in place to assist companies *after* the SBPP experience to help them as they grow.

While staff may have a more descriptive term than “launch,” our intention is to convey a sense of motion into the relationship that is being initiated between ETP and the small businesses; additionally, we sought a term that symbolized the movement of the small business toward a “culture of training”...the SBPP gives impetus and provides a user friendly push in the form of financial incentives that we interpreted as a “launch.” We note that SBPP focus group participants suggested in concert that the reimbursement covered only about 25% of the cost of training, indicating that the push may have been as

important as the financial reimbursement from ETP. The terms and labels used for the continuation of SBPP is of minimal importance, but the positioning of the SBPP as a stepping-stone to traditional ETP processes is the overall desired outcome of this recommendation.

Recommendation Set 2: Current SBPP Policies

Continue to ***set the maximum dollar limit for year 2 of the SBPP at \$25,000***. Based upon the data collected, the existing procedures and policies of the SBPP appeared to be appropriate. The maximum dollar limit did not appear to deter the SBPP participants; according to the information collected, 89% of the respondents noted that they did not reduce the training goals because of the limit; when asked to elaborate, some 86% commented that the dollar limit was not a factor in their participation in the SBPP. There is a strong consensus among staff and Panel that the \$25,000 limit provides a reasonable level of risk protection. Note that the average SBPP contract was at about the mid-point of the maximum limit, giving a reasonable range for small businesses to be more aggressive in their training goals without bumping against the program limits. We add the following considerations.

- Consider ***expanding the funding limit to a higher limit (we suggest \$50,000 as it was the number most frequently mentioned in our evaluation effort and is responsive to the relatively small but consistent feedback from staff and focus group participants) in year 3***; after the second year of the program, staff will have more experience with risk assessment. This strategy acknowledges that approximately 20% of the current group of firms in the Pilot did request funding near the maximum, suggesting the target market could welcome an expanded program that addresses an (apparent) unmet need for higher levels of training. The dollar limit controls a large part of the risk with public funds, but the higher limit recognizes the input from field staff that the risk can be mitigated with site visits and careful questioning at orientation. The basic concern is to balance risk and outreach priorities. Key to this commendation is the second year SBPP data and the experience to be gained by staff after one more year of administering the SBPP.
- Continue to ***limit participation to businesses with fewer than 100 employees***; this allows the program to continue to champion the cause of small businesses and is a concrete illustration of the Panel's recognition that it has an obligation to serve the smaller businesses in California.
- ***Eliminate the hour limit on training*** or increase the maximum to 60 hours. This offsets some concerns among staff that the program is too modest to allow serious and meaningful training. This recommended change is low risk for ETP.
- Align the SBPP with the traditional process and ***allow contracted training to be modified up to the full two-year cycle*** without requiring administrative amendments, as long as the dollar limit is not being exceeded. This would continue the theme of streamlining the contracting process without increasing the risk or adding procedural delays. Currently, the Regional Manager appears to be needed to modify type of training and timing of the contract. As long as ETP holds dollars constant, the incremental risk related to time extension and/or type of training can be decentralized to the field specialists who are in the best position to determine the appropriateness of the requested modification(s). This change is consistent with the input collected from ETP field staff (R4).

Recommendation Set 3: Orientation, Application and Approval Processes for Traditional ETP

The initial concern as expressed by several ETP staff is that, if the ETP process was to be streamlined for all projects then it would no longer have a program that meets the specific needs of small businesses. Also, staff was concerned that larger businesses might use up the funds faster, leaving the small

businesses without available funds. ETP would then be back to where it started, trying to answer the question: “How can we tailor our services to meet the needs of the small business community?”

Additionally, in the review by SFSU, the issue of risk management came across as a very strong factor arguing ***against migrating the streamlined procedures*** to the traditional ETP process. This concern seemed to be evident at all levels of ETP staffing. ETP currently requires the traditional applicant to justify the training needs and specify the relationship between training and the expected improvement in the overall competitiveness of the company. There appear to be almost no constituency advocating that these requirements be waived, in spite of the labor-intensive nature of the SEC document. Similarly, no significant sentiment was found to support the changing of the curriculum requirement that exists in the traditional ETP processes.

MECs are similarly required to provide significant amounts of information regarding recruitments, demand, labor market info, assessments, participating employer contributions, and supplemental information. They also must provide a detailed curriculum that addresses a generic need in the marketplace. No significant support emerged from the evaluation that suggested the MEC process should be streamlined to the extent of the SBPP.

With these comments in mind, the evaluation team did find logic to recommend consideration of the following revisions in the traditional ETP process:

- ***Move all companies to online orientation and online tracking of trainees*** (a change that already seems to be in motion). There is almost full consensus from the field staff for this change in procedures. It may also be appropriate to capture the best practices of each field office to help enrich the online experience and capture data needed by the field offices; this best-practice analysis could be an outcome of an extension of the current evaluation effort.

Currently, perhaps the most labor-intensive component for both the ETP field staff and the applying companies is the SEC, which describes:

- the nature of its business
- how it currently operates
- the changes the company is facing
- how the employees jobs are impacted by the changes
- how the proposed training will facilitate in the changes (typically requiring the company to get input from the managers/supervisors of the impacted units in order to justify the proposed training plan)
- an explanation for each type of training and which occupations will receive the training

The following considerations are recommended:

- Field staff could experiment with ***capturing these key components of the SEC in a checklist format*** (i.e., to concisely address Legislative priorities); the companies could certify their market conditions and provide justification with staff checking off key monitoring points that insure completeness but eliminate redundancy; this recommendation may take careful review by legal counsel to make sure that an abbreviated, checklist SEC cover page properly protects the agency. Field staff would use site visits and final audits to verify the key contract parameters that trigger release of funds to the contractor. A mid-range approach would have staff try this process with perhaps 25% of traditional applicants (randomly selected by a mechanism to be developed by ETP, such as the RED number, etc). Again, an outside team may be the most efficient way to capture the key items that might be included in an SEC checklist process. This effort could be combined with the development of a field office best practices documentation process that would assist in knowledge transfer within ETP.

- Consider ***developing a universally used shorter, clearer version of the Terms and Conditions*** that would make it easier for the employer to understand what was required of them during and after the delivery of the training.

Field staff did note that MECs have historically tried to sell their services by telling small businesses that the ETP process was too complicated to do on their own. This pilot has demonstrated that the small businesses can easily secure and successfully deliver training without a consultant. Thus, ETP can expect tension between MECs and the SBPP. The general consensus amongst staff, however, was that the MEC system seems to work fine as is and may not be a candidate for inclusion in a streamlined application process.

Recommendation Set #4: Outreach and Inclusion Strategies

As indicated in the results section, the SBPP has met its numerical objective for outreach. However, rural businesses, women owned and minority owned businesses, which account for over 40% of the California landscape, are not specially identified. Thus the ETP can not speak authoritatively about equity and breadth in its contacting efforts, in spite of the successes of the SBPP. The SBPP has met its small businesses goals, but not because of a systematic outreach to the full diversity of California small business. Particular pockets of the target group, as noted above, may or may not be sufficiently represented in the current contracting data. ETP is not alone in trying to find an efficient strategy to work with the diversity of California small business. Almost all public entities (and many private ones) express some difficulty in reaching and contracting with small and minority owned firms. An important objective for ETP is increasing utilization of the training funds so that all small businesses can have a reasonable opportunity to have their staff trained utilizing state funds.

ETP staff indicated that they have not yet done a consistent marketing effort specific to the groups of small businesses noted above. Once successful training examples of minority- and women-owned businesses are chronicled, they can likely be marketed to the targeted communities throughout the state. The evaluation effort uncovered no roadblocks per se to including minority or women owners. However, the emerging consensus was that these market segments were not being specially addressed. Similar concerns were noted with regard to rural and seasonal small businesses in the state.

To reach difficult targets, ETP should consider:

- ***Developing a profile of*** size, number, location and other key parameters of apparently ***underserved constituencies***, e.g., small women- and minority-owned, rural and seasonal businesses.
- ***Developing a database of organizations that might provide efficient outreach*** to these targeted groups, including a listing of:
 - ***MEC, highlighting details on coverage, client groups, industry served, etc.***
 - Local community associations in specific industries such as software and scientific research that have ongoing contact with targeted small businesses
 - Campuses of the California State University system (e.g., the Offices of Service Learning which are active community links within the university), Community Colleges and Adult Education Programs, that have expertise in the adult education field and business training field, to help develop assessments and short, industry specific programs for small businesses

- Chambers of commerce, especially those that include the underserved small businesses (e.g., women and minority chambers of commerce) to assist in identifying employers' needs; new and expanded focus programs modeled after the SBPP might be developed specifically for those employers who are interested in "trying ETP out."

As one senior ETP staffer noted, California's economy is diverse and ETP therefore needs a diverse set of training project mechanisms to serve the diversity of businesses and employees in this state (R7). California small businesses that are rural, seasonal, women- and /or minority-owned, are part of that diversity and may require similarly creative approaches such as the SBPP to raise their participation level in ETP contracting opportunities.

Recommendation Set #5: Costs of the SBPP and Related Economic Benefits

Our evaluation results suggest that SBPP participants have positive expected outcomes along similar parameters as traditional ETP contractors:

- Retention - Increased number of employees (retained or new hires): 68% of employers said the training would help them retain their workers; 87% of the trainees said that the training was useful to the company (making it more competitive).
- Wages - Increased wages: 21% of employers said that the training program already resulted in wage increase to trainees and 24% of trainees said that they had already received a raise; 80% of employers said that they expected to give trainees a raise in the next 6-12 months and over 84% said the training was important or very important in their decision to give raises.
- Sales - Increase sales expected by almost all the employers as a result of the training.
- Productivity - Increased productivity expected by participants: 60% of trainees said they could perform "their current job better"; 27% of trainees say the "understand the company better" after the training; 70% of the trainees said the training was "just right."
- Morale - Improved morale was noted: some 74% of trainees said training was "very useful" to them personally; over 90% of employers and trainees were willing to participate in future training programs
- Owner Skills – This last category is unique to SBPP and needs to be examined in more detail as suggested below; 44% of owners participated in the training, suggesting a gain in overall competitiveness in the management function for the respondents

Comparative administrative cost to ETP for the SBPP versus the traditional ETP processes is a bit more difficult to document. One field analyst estimated that, typically, between two and four "mainstream" projects can be completed by one analyst per month. Using the Pilot's abbreviated formats, each SB analyst can comfortably complete three or four times that many projects per month (R4). The offsetting factor is that the SBPP contract dollar amount is much less on average.

It may be most useful to think of the "political cost" if the rather unique stakeholders attracted by the SBPP are not targeted. Thus, financial cost must necessarily be balanced against the risk that neglected stakeholders will become more aggressive and active. A better approach for ETP is to continue to manage the SBPP as a proactive approach to reaching a previously underserved group.

ETP has some 20 years of historical data by which it can measure economic impact of its contracting outcomes. The timeframe of this evaluation only allowed a capturing of expectations. The following recommendations are designed to help develop a set of data that might better quantify the economic benefits of the SBPP.

- It is recommended that ***ETP extend this evaluation to capture economic data from SBPP participants after 90 days or 6 months*** and see how those metrics compare with ETP's historical data. The extended analysis would develop the baseline data of the current effort and will then be more comparable to traditional ETP outcomes. The timing here measured expectations on: retention, sales, wages, productivity, and morale. The clients served under the SBPP could very easily be argued to be a previously underserved stakeholder group that needs its own specific metrics (initially) to see if they are consistent with ETP's twenty-year contracting history. We recommend extending the metrics used to generate the current baseline data noted above, which in turn mirror the historic metrics used to help assess economic benefit to the California economy.

The data indicated that some 44% of owners participated in the training under the SBPP.

- It is recommended, therefore, that an ***amended evaluation be designed to develop tools to attempt to assess the economic benefit of allowing owners to participate*** in the training process. Key questions that should be addressed in subsequent inquiry include:
 - How does training of the owner make the business more competitive?
 - Does the owner's participation suggest that new industries and/or new markets are being targeted? If so, what are they and how do they aid the overall competitiveness of the California small business community?
 - Did the use of technology change for the business as a result of the training?
 - Are there specific indicators of economic benefit that can be tracked to the owner's training?
 - How was the owner involved in the training? As a participant? As a trainee? How does this work in the face of no formal curriculum and minimum monitoring?

IX. REFERENCES

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